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EC INDUSTRY
Car chief warns of job losses
Page 14

World News

Huge oil spill as tanker breaks up off Australia

A Greek tanker broke up and leaked 10,000-20,000 tonnes of light crude oil into the sea off the west coast of Australia, creating a spill estimated to be eight miles long and 1,000 yards wide. The crew were rescued after a fire broke out on board. Page 4

Talks on Iraq embargo
Senior UN representatives will today consider whether to allow a temporary suspension of the embargo on Iraqi oil sales in order to finance imports of food and medicine. Page 14

Minister may resign
South Africa's law and order minister Adriaan Vlok said he is considering resigning over covert police payments to the Inkatha Freedom Party, main rivals of the African National Congress. Opposition call, page 4

Cresson's rating slumps
The declining popularity of French prime minister Edith Cresson was confirmed in a weekend poll giving her one of the worst results of any French premier in recent history. Page 2

Bush faces China test
President Bush faces a stiff challenge to his China policy, with Senate Democrats seeking to attach conditions to the renewal of "most favoured nation" trade status. Page 4

Croat recruits killed
A suspected Serbian gunman killed three police recruits in eastern Croatia hours before president Franjo Tudjman visited the region to discuss ethnic violence in his republic. Crisis summit, page 2

Afghan peace scorned
Mujahideen guerrillas agreed to press for a military victory in the Afghan war, virtually dismissing a UN peace plan for a ceasefire.

Umbrella murder plea
Sofia will ask Moscow to extradite a Bulgarian interior ministry general linked to the "poison umbrella" murder of exiled dissident Georgi Markov in London 13 years ago.

Salvador power struggle
El Salvador's governing Arena party faces a bitter power struggle following an announcement that its founder, Roberto D'Aubuisson, has terminal cancer.

Fire on French carrier
Fire broke out in the aircraft hangar of the Clemenceau, one of France's two aircraft carriers, in Toulon. Nobody was seriously hurt.

Labour chief accused
Bob Hogg, national secretary of Australia's ruling Labour party, has been charged with breaching electoral laws by failing to disclose thousands of small donations.

Somali ceasefire deal
Six political groups from Somalia announced agreement in Djibouti on a ceasefire in their war-torn country. They named Ali Mahdi Mohamed to lead an interim government.

Executions in Canton
Nineteen people were executed in the south China city of Canton for robbery and murder.

Prize catch
Fisherman René Pouzolle caught a wrecked Mirage aircraft in his nets when trawling off the French Mediterranean port of Sète. The fighter crashed 11 years ago.

Australian wins Open
Australian golfer Ian Baker-Finch clinched the first big title of his career when he won the British Open at Royal Birkdale by two shots over his compatriot, Mike Harwood.

Business Summary

European car chief warns of massive job losses

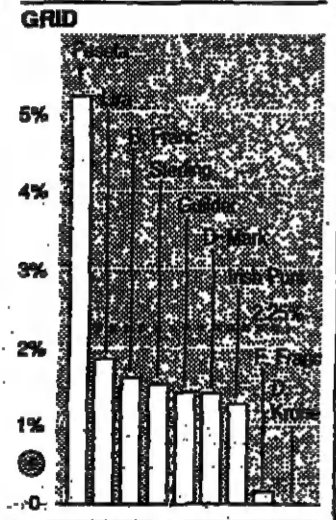
The European Community faces the loss of "several hundred thousand" jobs through European motor industry restructuring to fend off the Japanese, according to Raymond Levy, president of the European car industry lobby group Acea and chairman of Renault, the French state-owned car group. Page 14

MULTINATIONAL companies' foreign investments have been growing three times faster than world trade since 1983 and promise to be the crucial factor fuelling world economic growth in the 1990s, according to a study by the United Nations Centre on Transnational Corporations (CTC). Page 14

EUROPEAN MONETARY SYSTEM – Members of the exchange rate mechanism rose sharply against the dollar and Japanese yen, dragged up by speculation about higher German interest rates. The D-Mark showed little movement within the ERM however, while sterling traded steadily in the top half of the system. The French franc remained second weakest, on speculation that encouraging inflationary trends will result in lower French interest rates. Currencies, Page 25

EMS July 19, 1991

GRID



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the EMS narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. Sterling and the Spanish peseta operate with 6 per cent fluctuation bands.

MOODY'S, one of the large Wall Street rating agencies, is to downgrade the ratings of six big US insurance companies. They are: John Hancock Mutual Life Insurance; Massachusetts Mutual; Principal Mutual; Mutual Life Insurance Company of New York; New England Mutual Life Insurance and Travelers Insurance. Page 15

TACE: Thermo Electron, a US environmental group, will this week decide whether to increase its offer for the environmental control equipment maker after the claim by Cambridge Electronic Industries to have won the bid battle. Page 15

UK ECONOMY: The Confederation of British Industry/Financial Times survey of the distributive trades shows that there was no further worsening in retail sales volumes between May and June, while wholesale trade last month fell at its slowest rate this year. Page 14; Details, Page 6

BANCO ESPANOL de Credito (Banesto), one of Spain's largest commercial banks, has reported first half pre-tax profits in its financial group of Pta24.7bn ($225m), down 38 per cent on the first six months of 1990. Page 17

Bank presses Abu Dhabi on BCCI wind-up

By **Richard Waters** in London

THE Bank of England was trying last night to persuade the majority shareholder of Bank of Credit and Commerce International, Sheikh Zayed bin Sultan al-Nahyan, ruler of Abu Dhabi, to agree to a formal winding up of the bank, as fresh claims emerged that the authorities had acted too hastily when they closed BCCI.

The sheikh has indicated his intention to oppose the winding up petition, which will be heard in the High Court in London today. Four law firms acting for depositors of the bank are expected to oppose the winding up order as well.

The Bank has based its case for acting against BCCI on an unpublished report from Price Waterhouse, the bank's auditors. The report pointed to significant new fraud which left it with no option but to close BCCI, the Bank has said.

However, three people who have read the report said yesterday that it contained no evidence of new frauds carried out at the bank since last October.

The three people, who declined to be named but who have read the report independently of each other, said that it revealed substantial past fraud at BCCI, and that much of the evidence for this had only been discovered recently.

They disagreed with the Bank's claim, though, that it showed new frauds which demanded drastic action by the banking regulators. One said that the report showed that old frauds at the bank had had repurcussions which extended beyond last October.

BANK SHUTDOWN
- BCC(E) may take over Pakistan branches.... Page 5
- Auditors' concern..... Page 5
- Editorial Comment, Page 12

The banking regulators were aware of significant problems at the bank last year, but believed that the situation had been rectified. The Bank of England's claim that substantial new frauds emerged at the bank later is central to its case for closing BCCI so hurriedly, without first consulting its majority shareholder.

The Bank of England was forced last week to hand over copies of the Price Waterhouse report, carried out under section 41 of the Banking Act, to representatives of BCCI's shareholders, directors and creditors.

The winding up hearing has been brought forward to today at the request of the Bank of England, which says it wants to speed up compensation payments to depositors of BCCI's UK branches.

Sheikh Zayed's representatives argue that winding up the bank in a rush would prevent a possible rescue of parts of the group by the Sheikh, who had been prepared before the closure to put more capital into the bank. The Abu Dhabi-based BCCE conditionally approved a takeover on Saturday of BCCI's three branches in Pakistan, prompting suggestions that attempts are being made to construct a new, regional bank out of the remains of BCCI.

The Bank of England was trying yesterday to persuade the Sheikh that a winding up order would not prevent a future recapitalisation of part or all of the bank.

It would be possible to return to court to have the terms of the winding up order varied, it said.

Other opposition today will come from four law firms, including Richards Butler, which said it spoke for depositors owed £250m by the bank. Pritchard Englefield & Tobin will appear on behalf of UK local authorities, which are believed to have had £70m deposited in BCCI when it was closed.

Mr Mourad Fleming, of Richards Butler, said that he would be seeking a 30-day delay in the winding up hearing to give more time to consider the evidence. Lawyers representing creditors received the Price Waterhouse report only on Thursday evening.

Major under pressure to testify

By **Ivo Dawnay**, Political Correspondent

Britain's opposition parties will today press Mr John Major, the prime minister, and Mr Norman Lamont, the chancellor, to testify publicly in the forthcoming inquiry into BCCI, following fresh allegations at the weekend.

With the independent inquiry's exact remit and chairmanship still being decided last night, Labour stepped up the pressure on Mr Major to detail what he knew of the bank's affairs both as chancellor and as prime minister.

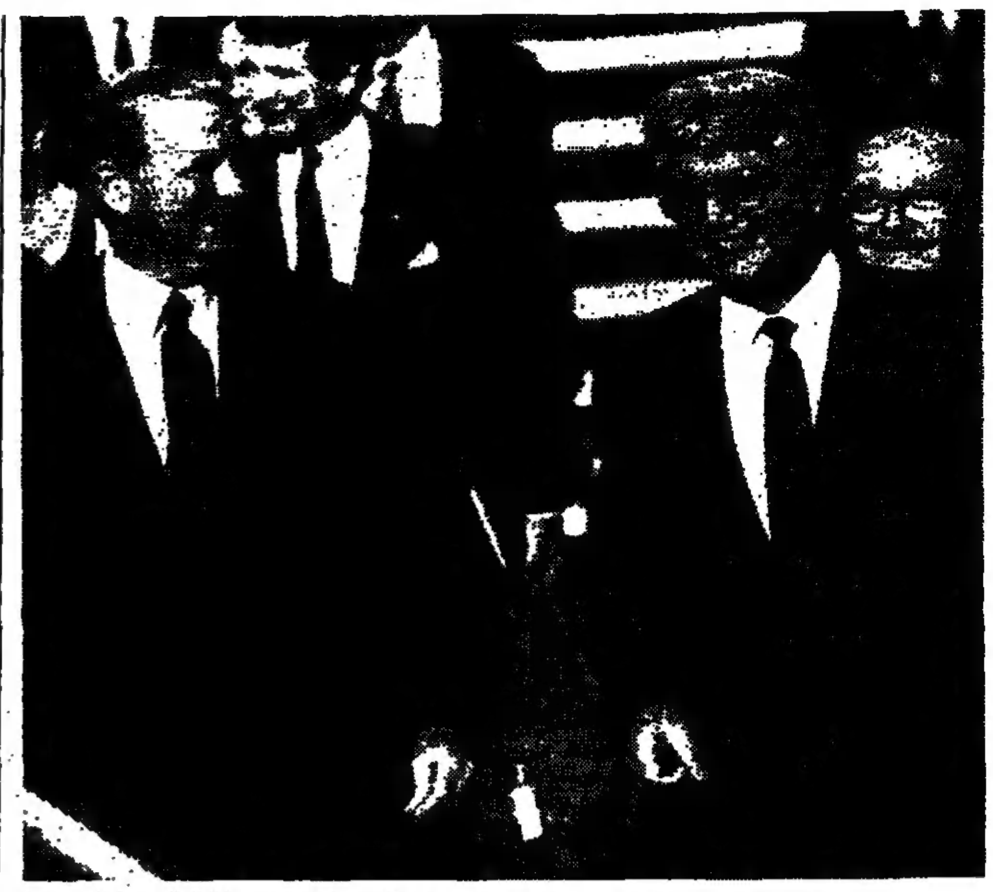
One Cabinet minister indicated that the government had hoped its inquiry announcement on Friday would help to allay the growing clamour over the BCCI case. But he conceded yesterday: "It is clearly not going to go away."

Yesterday, Mr Roy Hattersley, Labour's deputy leader, argued that when concern about BCCI shifted in January 1990 from security matters related to terrorism to banking issues, Mr Major, as the then chancellor, must have been informed.

"The question is how much the then chancellor bears responsibility for what has happened over the past 18 months," he said.

Demanding a further statement to the Commons this week, Mr Hattersley said that Mr Lamont must explain who would chair the inquiry, what its powers and terms of refer

Continued on Page 14



James Baker (left) is met at Ben Gurion airport by Israeli foreign minister David Levy

Israel told 'the time for peace is at hand'

By **Hugh Carnegy** in Jerusalem

PRESIDENT George Bush yesterday stepped up the pressure on Israel to respond positively to US proposals on the Middle East. Speaking during a visit to Istanbul, Mr Bush called emphatically for a freeze on Jewish settlements in the occupied territories and said he was confident Israel would realise "the time for peace is at hand".

His pointed comments came shortly before Mr James Baker, US secretary of state, arrived in Jerusalem to test Israel's reaction to the united Arab acceptance of Washington's proposals.

"I'm confident, and I hope it's not misplaced confidence, that when the secretary gets to Israel, he will find that they, like all these other countries, realise that the time for peace is at hand," Mr Bush told journalists.

He said the US was seeking to reason with Israel rather than pressing it. But Mr Bush also said he was asking for a positive response on the question of settlements.

"I had a one-on-one discussion with [prime minister Yitzhak] Shamir months ago and made clear to him that the United States policy was that there be no more settlements," he said.

Mr Baker, on the last leg of a five-nation Middle East tour, went into talks with Mr Shamir last night armed with unprecedented regional backing. Syria, Egypt, Saudi Arabia and Jordan are supporting his plan for a regional peace conference, followed by a series of negotiations on bilateral Arab-Israeli issues and the Palestinian problem. The last piece fell into place when King Hussein of Jordan gave his assent to Mr Baker in Amman yesterday afternoon.

Earlier yesterday the Israeli government rejected an offer from Egypt, supported over the weekend by the Saudis and Jordan, to end the Arab economic boycott of Israel in return for a settlement freeze. Officials said there could be no linkage between the issues. They said settlements would not come up for discussion until much later in any negotiating process.

However, Mr Shamir, accompanied by Mr David Levy, the foreign minister, and Mr Moshe Arens, the defence minister, were seeking details of the US and Arab positions from Mr Baker before making a fuller response.

The government's main suspicions concern Syria, Israel's most radical and implacable opponent, which accepted the US plan last weekend. There was also concern that the US was backing Israel into a corner.

"What is important is that direct negotiations between us and Syria are direct negotiations between us and Syria, not between us and anybody else, not even the US," said Mr Binyamin Netanyahu, the deputy foreign minister. "We certainly bless all US efforts to start a process of direct negotiations, but we expect the US to keep its obligation to be an honest broker."

The US is asking Israel to drop its objections to a minor UN role in the peace talks and to any reconvening of the regional conference after an opening session. Israel thinks both features could bias the process against it. The issue of who represents the Palestinians also remains to be overcome.

Settlements stumbling block, Page 3

Yeltsin bans Communist cells in Russian republic

By **Leyla Boulton** in Moscow

A DECREE by Russian president Boris Yeltsin banning Communist cells from all enterprises and local government in Russia has dealt a body-blow to the Communist party at the start of a week in which it is to consider its very survival.

The decree, issued at the weekend, also requires managers and government officials to follow state law only and ignore orders from the party.

For decades, the party's offices, or cells, in every factory and council have helped maintain the Communists' iron rule over everyday life in Russia and other Soviet republics.

Although some of these cells have been abolished on local initiative, thousands of so-called primary party structures remain in industry, local government and agriculture. Some continue to influence policy, while others are seeking a new role for themselves.

The decree, which is likely to spark angry resistance from the Communist establishment and possibly even from President Mikhail Gorbachev, is only a first step in Mr Yeltsin's long-promised campaign to extricate the party from state organs and the economy in the largest Soviet republic.

Yeltsin: dealing a body-blow to the Communists

Mr Yeltsin also asked the Russian parliament to submit to the Soviet legislature a bill on the "depoliticisation" of the centrally run Supreme Court, the army and the KGB.

This particular decree is clearly timed to influence a crucial two-day meeting of the Communist party's central committee, starting on Thursday. The plenum will be asked to approve a radical new programme embracing private property – as part of a mixed economy – and political pluralism.

The vote on the draft programme will in turn help determine whether liberal Communists remain in a renewed party or join alternative groups offering an attractive way out for disgruntled party members.

The move by Mr Yeltsin is likely to divide the party even more and force hardliners to choose between fighting back or giving in to change.

One alternative to the party is the Democratic Reform Movement, launched by Mr Eduard Shevardnadze, the former foreign minister who left the party, and liberal Communists close to Mr Gorbachev.

Some movement founders say it will turn itself into a party in September, even though others, such as Mr Arkady Volsky, head of the Soviet employers' organisation, and Mr Alexandr Yakovlev, a presidential adviser, have apparently not yet decided whether to leave the party.

Ultra-conservatives such as Ms Nina Andreeva, whose political views have made her the most famous schoolteacher

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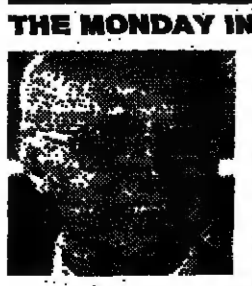

Helmut Schlesinger becomes president next month of Germany's Bundesbank, one of the most powerful jobs in international economic policymaking. As Germany tussles with economic turbulence, it is a task likely to test the stamina and obduracy for which he is noted. Page 30

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FT SURVEYS THIS WEEK

INTERNATIONAL CAPITAL MARKETS
See details, right.

TODAY:
International capital markets: The behaviour of international investors suggests that the already significant level in cross-border investment flows will grow still further. *(Separate section).*

TOMORROW
Pharmaceuticals: Economic recession has not touched the industry. Yet while sales and profits are growing fast, soaring R&D costs and government moves to hold down health spending are forcing companies to seek partners for merger, acquisition or strategic alliance.

WEDNESDAY:
Courier and Express Services: retrenchment and rationalisation is the order of the day in Europe.

Yugoslav leaders' crisis summit today

By Laura Silber in Belgrade

YUGOSLAVIA'S leaders meet today for a crisis summit, in an attempt to curtail widespread ethnic and nationalist violence between Serbs and Croatians in Croatia.

The meeting is also scheduled to consider joint efforts to staunch the country's accelerating economic collapse.

The state presidency, the country's eight-member collective leadership, and the presidents of the six Yugoslav republics will attempt to reach an accord as ethnic violence threatens to spill over into other parts of the country.

But sharp divisions remain between Serbia and its allies on one side and break-away Croatia and Slovenia on the other.

Over the weekend the leaders of Slovenia and Croatia, along with the central republic of Bosnia-Hercegovina, agreed to set up a joint commission to overcome trade blockades. The three prime ministers said it was necessary to "connect the broken threads of economic co-operation to enable the free movement of goods and citizens across republic borders".

The weekend meeting was called by Bosnia, which fears an explosion of violence amongs its ethnically mixed population of Serbs, Croats and Slavic Moslems.

An awareness of the sharply deteriorating economic situation, exacerbated by mounting ethnic conflicts, hangs over the agenda of today's talks in the town of Ohrid, Macedonia. General Veljko Kadijevic, federal defence minister, said at the weekend the army had given Yugoslavia's leaders an ultimatum to reach a political solution by August 15.

However, the leaders of Serbia and Croatia, the largest republics, have only succeeded in heightening ethnic tensions in an effort to rally mass support. Ethnic-related clashes are becoming a daily occurrence.

Three Croat policemen were killed by a lone gunman in the Croatian town of Daruvar, some 90km east of the republic's capital Zagreb, on Saturday night.

Croat police said yesterday a man was shot and killed from a moving car while sitting in his house. Police also reported a man was shot after firing on police guards at a roadblock. Both these incidents occurred in the Slavonia region of eastern Croatia. "In Slavonia bodies are rotting in the fields. We cannot pick them up because of the danger of being fired on (by Serbian guerrillas)," a Croatian minister said.

During a visit yesterday to Osijek, the regional capital of Slavonia, Mr Franjo Tudjman, Croatian president, reiterated charges that Serbia, under President Slobodan Milosevic, was backing terrorist attacks in Croatia. Mr Tudjman said Croatia would be mobilised to resist "terrorist actions" by the Chetniks, radical Serbian nationalists.

Today's summit of Yugoslav leaders follows the state presidency's order last week to the federal army to withdraw from Slovenia. The withdrawal paves the way for the alpine republic to secede. But fearing isolation in a rump Yugoslavia, Croatia has also appealed to the presidency, which is the commander in chief of the federal army, for the military to withdraw there too.

Croatian defence force members flash victory signs from a truck at the weekend. An hour later they were attacked by Serbian nationalists, but no one was hurt

Integration pledge for Latin America

By Rebecca Doulton in Mexico City

LATIN AMERICA took a leap towards regional integration and co-operation at the weekend, during the first Ibero-American summit.

Twenty-three heads of state, including those of Spain and Portugal, attended the two-day summit in Guadalajara. In the closing declaration the 21 Latin American nations reaffirmed a commitment to international law and promised to promote human rights and eradicate the "scourge of misery" by the end of the century.

The leaders also proposed a common front in the drug war and the creation of a fund for indigenous people. An Ibero-American Chamber of Commerce designed to facilitate trade relations in the region was set up.

The summit's theme was integration, although President Alberto Lacalle of Uruguay said "it would be unrealistic for trade barriers to fall from one day to the next".

Appealing to international finance institutions to be "less myopic" in their assessment of economic advances in Latin America, Mr Lacalle appealed to creditors to recognise the long-term efforts being made by the region's fledgling democracies.

Although there was fear the summit would become a forum to pressure Mr Fidel Castro for changes in Cuba's communist regime, the final declaration emphasised respect for individual sovereignty and political plurality.

Mr João Baena, head of the Organisation of American States, said its members had to determine Cuba's readmission to the OAS. The country was expelled in 1962.

Spain and Portugal stressed their role as natural bridges for Latin America's eventual entry to the European market; Spain pledged $7bn of low interest credits and a further $7bn for investment schemes in the region.

Mr Gabriel García Márquez, Nobel literature laureate, urged the creation of a Latin American ecological alliance.

● Economy ministers from four South American countries meeting in Uruguay have agreed to work out a common set of rules to combat dumping and the sale of subsidised goods by non-members of their planned common market, Reuter reports from Montevideo.

"We decided we should take the lead in the fight against subsidies or dumping policies [and] that we should adopt uniform legislation and mechanisms to create an atmosphere in which our countries utilise the same procedures," Mr Domingo Cavallo, Argentine economy minister, said after a one-day meeting with counterparts from Uruguay, Brazil and Paraguay.

Ecological fears behind Mexican border boom

Bernd Debusmann of Reuter on the problems of industrialisation

A STRING of Mexican border towns are booming, thanks to an industrial development programme which has provoked warnings of ecological disaster and cries of greed and exploitation.

Efforts to attract foreign – mostly US and Japanese – assembly plants to the border region have been a resounding success. In the past three years alone, six new factories have opened every week and more are on the way.

Factories in Tijuana now assemble one out of every four television sets sold in the US.

On average, Japanese companies ship nine TV sets a minute across the border. More than half the 100 biggest US companies operate assembly plants in Mexico, taking advantage of cheap labour and exemption from most duties.

As a result, Tijuana, the largest city on the border, is enjoying an economic boom and so are a string of other towns along the 3,200km frontier. Wages are higher and unemployment much lower than elsewhere in Mexico.

The plants now employ nearly half a million people, a substantial number in a country with rampant unemployment.

Yet the rapid industrialisation of the border region has prompted fierce criticism in both Mexico and the US.

Environmentalists say the border is being turned into a toxic waste dump. US labour leaders say American jobs are being stolen. US protectionists complain that Japan is using the border as a backdoor to the US. The arguments used in the debate are certain to shape negotiations on a free trade agreement between the US, Canada and Mexico which began last month.

Known as maquiladoras in Mexico and in-bond plants in the US, the factories operate under a system which allows them to import raw materials and components duty-free from the US. The finished products are re-exported to the US, which charges tariffs only on the value added in the assembly plant.

Conceived in the mid-1960s, the explosive growth of the maquiladora industry – 453 plants in 1974, 1,100 in 1988, and 1,936 by June 1991 – is based on the huge differential in wages between the US and Mexico.

"Straight comparisons can distort the debate," says Mr Francisco Escalante, a Tijuana business consultant. "Those who talk about exploitation make the point that someone who makes $1.20 an hour here could get five times that much in the US. The point is that $1.20 an hour is more than twice the minimum wage in Mexico City."

Many maquiladora plants provide cash bonuses for regular attendance and grocery vouchers for those who work for them for more than three months. Company cafeterias often provide subsidised meals.

Experts on both sides of the border say that apart from low wages, lax pollution controls allow foreign companies to cut production costs and increase profits.

From Tijuana in the west to Matamoros in the east, environmentalists say, dozens of maquiladoras disregard rules on disposing of toxic waste and fail to follow safety standards that are taken for granted in the US.

The problem was thrown into sharp focus in January when the Mexico City government decreed the establishment of a 2,000-metre-wide "green zone" around a Dupont factory in Matamoros that produces hydrogen fluoride.

Meant as a safety cordon in case of an accident, the green zone would have required 30,000 people to abandon their homes and move elsewhere. The would-be evacuees have resisted saying the plant should move instead.

"In the worst-case scenario, an accident at the plant could lead to a disaster on the scale of Bhopal," says Mr Domingo Gonzalez of the Washington-based Coalition for Justice in the Maquiladoras.

In the Indian city of Bhopal, a cloud of poisonous gas leaking from a US-owned chemical plant killed more than 2,200 people six years ago. More than 300,000 have suffered long-term health problems.

But others say not all is lost. Dr Roberto Sanchez produced one of the first detailed scientific studies on the ecological impact of maquiladoras.

In a 1987 study for the Tijuana-based Colegio dela Frontera Norte, a think-tank specialising in the US-Mexican border, Dr Sanchez found that dangerous industrial waste was poisoning the ground water table with substances that can cause cancer, congenital defects and damage to the nervous system.

"Since that study, there have been some changes," Dr Sanchez says. "The problems have not gone away, in fact some are worse because there are more factories.

"But there is a much better understanding of the dangers now, both among the communities and in the industry, and that gives hope for change to the better. It won't happen overnight but there are signs of improvement."

Cresson's popularity still plummeting in opinion polls

By William Dawkins in Paris

FRESH evidence of the declining popularity of Mrs Edith Cresson, France's prime minister, emerged over the weekend with an opinion poll giving her the one of the worst results of any French premier in recent history.

The survey, by Ifop for Le Journal du Dimanche, confirms that Mrs Cresson's poor public image, hit by France's simmering social problems and the impression that she is sometimes not on easy terms with members of her government, is dragging down that of President François Mitterrand.

The popularity of Mr Mitterrand, who appointed Mrs Cresson to the Matignon in May, has hit its lowest point since November 1985, six months before the Socialists lost the 1986 general election.

The proportion of voters dissatisfied with Mrs Cresson's performance more than doubled over the past two months, from 18 per cent in June to 37 per cent in July, while her popularity rating has fallen over the same period by 7 percentage points to 18 per cent.

Such a low rating is almost unprecedented among prime ministers in the 33-year life of France's Fifth Republic, according to Mr Jean-Luc Parodi, research director for the national political sciences foundation.

Meanwhile, the proportion satisfied with Mr Mitterrand's performance has slipped by 7 points to 33 per cent from June to July, while his dissatisfaction rating has risen by 6 points to 48 per cent.

Common reasons for disillusionment cited by the 1,763 people interviewed early this month were rising unemployment and a poor quality of life.

However, Mrs Cresson has attracted criticism in recent weeks for her outspoken views on Japan and how to tackle immigration.

The government has also had to face another round of urban riots, and to make unpopular decisions to curb public spending.

There is also evidence that Mrs Cresson is getting less support from her own party. According to the poll, only 34 per cent of Socialist sympathisers interviewed had confidence in the premier, 12 points down on last month, while 25 per cent were dissatisfied, 16 points more than in June.

Venezuela approves big cuts in taxation rates

THE Venezuelan congress approved at the weekend big reductions in corporate and individual tax rates, writes *Joe Mann in Caracas*.

In one of its last acts before a summer recess, the congress lowered the maximum corporate tax rate from 50 per cent on operating profits to 30 per cent, reduced maximum rates for mining activities and areas of the petroleum industry, and set up an annual inflationary adjustment for corporations.

Both Venezuelan and foreign investors have complained for several years about the country's high corporate tax rates.

The new rate structure should open the door to investments which were placed on hold pending tax reform.

The congress also raised the income level at which individuals are required to file tax returns, from $813 a month to $5,064 (£3,100) a month.

Peruvian power sell-off

PERU'S state-run electricity company has been authorised to sell to private investors its shares in seven regional electrical companies, an official decree said, Reuter reports *from Lima*.

The decree said private investment in the companies, aimed at eliminating the monopoly of state electricity companies operating outside Lima as well as expanding and improving their installations, was in the national interest.

The decree is similar to recent ones in which state-run companies have been authorised to seek private investors for majority participation.

France scraps plan for mobile missile

By William Dawkins

THE French government has scrapped a FFr30bn (£3.01bn) plan for a road-borne mobile nuclear missile, which was to have come into service towards the end of the century.

The decision, confirmed by officials yesterday, was taken earlier this month at a meeting of the government's defence council.

It is in line with President François Mitterrand's long-standing opposition to the S-45 missile scheme, on the grounds that nuclear weapons travelling by road during international tension might create public panic.

However, the Defence Ministry had kept its options open on the 12-year project, to provide information on alternatives for replacing France's current generation of S3 long-range land-borne missiles stored in 18 silos in southern France.

The decision comes as the government attempts to conclude a long-running debate on which leg of its nuclear triad should be eliminated. France cannot afford to replace all three of its nuclear deterrents, but needs to decide which ones to keep in time for the next generation of weapons to come into service by the end of the century.

The government has already decided to update and maintain its submarine-launched ballistic missiles. So the choice is between whether to update the land-based S3s, or replace the medium-range ASMP nuclear missile carried by the Mirage IV aircraft with an ASLP long-range version which could be carried by the new Rafale multi-role jet.

One factor that could influence thinking is Britain's choice of replacement for the Royal Air Force's ageing free-fall nuclear bombs, which will be obsolete by the end of the decade. The ASLP is one of the candidates, against two US rivals.

Another possibility being studied by the French Defence Ministry, officials say, is to adapt France's generation of submarine-launched missile – the M5 – for use in the S3 silos.

This could cost half as much as the abandoned mobile missile project.

Eureka's match-making prowess silences sceptics

Andrew Hill on a European research programme

THE EUROPEAN MARKET

GRETA, Clair and Astrid owe much to the US Strategic Defence Initiative; without it they might not be here at all.

The trio are acronyms for projects set up recently as part of the Eureka pan-European research programme – originally launched by French President François Mitterrand as a response to President Ronald Reagan's "Star Wars" research, which had become military godparent to a brood of civil research projects in the US.

Eureka, which celebrated its fifth anniversary last month, is restricted to civilian research and aims to improve the competitiveness and productivity of European businesses by encouraging cross-border co-operation.

Mr Kim Ruberg, Eureka's information director, says: "We don't go to industry and say we want this or that – industry comes to us and says: 'We have an idea, is it suitable and can you find us a partner?'" The tiny Brussels secretariat acts as a sort of central dating agency, matching partners from among 20 members, including the 12 EC countries and the European Commission.

For funding the partners can go to their governments or to the EC, which offers financial support for the pre-competitive aspects of Eureka projects. Once the project is under way the partners can also invite companies from non-members, such as the US or Japan, to participate.

Eureka is designed to complement the EC's top-down projects, encouraging products and ideas which should have a market application worldwide. "We aren't part of the Commission – they're part of us," explains Mr Ruberg.

Sceptics dismissed the original Mitterrand initiative as a public relations exercise, but the Eureka approach has fostered about 470 active projects, with a total budget of Ecu8.18bn (£5.71bn). These include leviathans such as the Joint European Submicron Silicon (Jessi) semi-conductor research programme, which may have cost more than Ecu3.8bn by the end of its seven-year span in 1996, and minnows like a 30-month Ecu1.84m project to find a new man-made alternative to leather shoe-uppers.

An assessment of the first five years of Eureka by a panel of industrialists, academics and civil servants picked out the flexibility of the programme's approach as one of its principal advantages. But there are also difficulties.

● Funding. Participants complain that although applying for and obtaining Eureka approval is fairly simple, when it comes to arranging funding from a number of different governments, projects are often bogged down in the intricacies of national bureaucracy.

Mr Herman van der Anweraer, research manager of LMS International, a Belgian company, oversaw a small Eureka project developing techniques to analyse noise problems in cars and other vehicles. The project, one of Eureka's first, was successfully completed in February 1990, in conjunction with the Catholic University of Leuven and Porsche of Germany.

But the more complicated funding arrangements of LMS's latest Eureka venture – developing mechanical vibration testing equipment – have delayed the project.

"It would be more convenient if the financial part of the project was linked to the material part," says Mr van der Auweraer. He advocates a more uniform approach from funding bodies, in line with the assessment panel's wish that governments should synchronise financial support for individual projects

● Relationship with EC projects. Brussels is often criticised for leaving technology policy in the hands of the Commission's technology mandarins, rather than listening to industry and users.

Mr Filippo Maria Pandolfi, EC commissioner responsible for research, seems to have initiated a change of strategy. In trying to salvage something from the mess of EC policy on high-definition television standards, for example, he is aiming for a parallel legislative and consultative approach.

But does such a policy risk treading on Eureka's territory?

April's paper from the Commission on the European electronics and information technology industry suggested Brussels should launch a "second generation" of research programmes "ranging from projects at the pre-competitive stage to projects geared more closely to the market".

The Eureka five-year assessment is firm on this point. "The funding level of the EC programmes is very attractive," it says. "Therefore EC participants may be inclined to continue using the EC framework for their development of market-oriented activities as well. Funding of these projects should, however, be restricted by the Commission."

Indeed, the assessment panel believes participants in completed pre-competitive EC projects should be encouraged to use the Eureka network when they want to put their results into practice.

● Autonomy of Eureka partners. When, in March, the Jessi programme decided to expel ICL, the UK-based computer manufacturer, from three of the five projects in which it was participating, it was a sharp reminder that the much-vaunted independence of participants can cut both ways.

When 80 per cent of ICL was bought by Fujitsu of Japan there was nothing to stop the company remaining in Jessi – except the other participants. As one official close to the programme puts it: "Companies have a tremendous influence on the [Eureka] project, which to my mind is a strength, but of course there's also the possibility of partners forming alliances against other partners."

Companies can also form alliances with counterparts outside Eureka projects, as the German company Siemens did two weeks ago when it linked with International Business Machines (IBM) to manufacture memory chips.

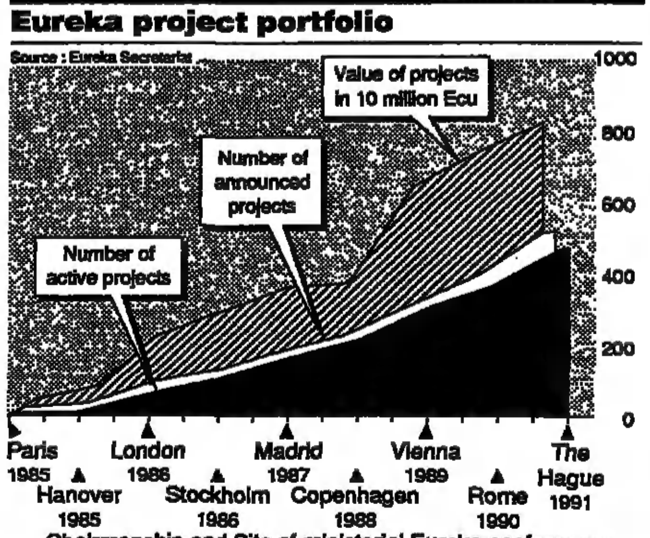
Siemens says there is no contradiction between the IBM link-up and objectives of the Jessi programme, although the deal appears to have ended the possibility of collaboration between European companies to compete in the world semiconductor market.

Mr Klaus Knapp, a spokesman for Siemens and Jessi, says: "Jessi is not developing final chips, but creating the basis to do so. Once products have been developed by the companies participating in Jessi, the next stage is to manufacture them. That has to be done outside Jessi."

If there is a lesson for Eureka, it may be the one already drawn by the assessment panel in their five-year report: flexibility, a wide variety of small projects and a lack of bureaucracy are all very well but "strategic projects which would give Europe an additional competitive advantage have not materialised on a large scale".

This, says the report, should be one aim for Eureka's next five years.

Eureka project portfolio



Ukrainian leader arrested

By Chrystia Freeland in Kiev

A SECOND Ukrainian political leader, Mr Oleksandr Serhienko, was taken into custody at the weekend, increasing suspicions that the arrest of the Ukrainian parliamentarian Mr Stepan Khmara last Thursday was part of an campaign to punish the Ukraine for failing to sign the Union Treaty this summer.

Mr Serhienko, who was injured when black beret troops stormed Mr Khmara's hotel room, was arrested on Saturday on charges of resisting police officers.

● Western diplomats believe President George Bush may visit Kiev or another Soviet city after his summit with President Mikhail Gorbachev in Moscow at the end of this month.

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'New strategic relationship' with US hailed

Bush pledges aid for Turkey

By Mark Nicholson in Istanbul

PRESIDENT George Bush wrapped up his two-day trip to Turkey last night by pledging a substantial increase in US military aid and by making a strong appeal for Greece and Turkey to resolve their differences and reach a settlement over Cyprus.

Mr Bush, speaking at a dinner in the historic Dolmabahçe Palace, also offered strong US support for Turkey's stalled bid for membership of the EC, saying that 10 years of "free government and free enterprise" had made Turkey the "rising star of Europe".

Mr Bush added: "There should be no question that Turkey deserves entry into the European Union, and Turkey can count on America's support."

Mr Bush's remarks follow a cordial and largely incident-free trip during which, though it leant as heavy on sightseeing as specific initiatives, both leaders have spoken of a "new strategic relationship" developing out of their close contact during the Gulf crisis.

The personal chemistry between the two leaders – who consulted almost daily by phone during the Gulf war – was evident yesterday in the relaxed manner in which Mr and Mrs Bush were escorted by their hosts through Istanbul's mosques and palaces and on a steamer down the Bosporus.

Nevertheless, both sides have sought to flesh out their broad talk of a "new" strategic relationship by setting up formal biannual meetings between officials at under-secretary level, overseeing a host of bilateral groups to meet yearly in an effort to expand scientific, cultural, educational and commercial ties.

However, Mr Bush stressed Turkey's traditional strategic importance as a "bulwark of Nato's southern flank", pledging to increase US military aid in 1992 to $625m. The sum is a substantial rise on this year's expected $500m of formal military aid, although total US contributions to Turkey's defence came overall to nearer $800m last year with the inclusion of what US officials describe as several "off budget" items, including delivery of a consignment of F4 aircraft.

The rise in aid raises questions about the US's traditional 7-to-10 ratio in military assistance to Greece and Turkey respectively. Mr Bush, who also promised Greece increased military assistance during his earlier stop in Athens, refused yesterday to comment on the ratio, though US officials privately concede that it has quietly been forgotten.

Mr Bush, following a similar appeal in Athens, made a point of calling on Turkey and Greece to bury their traditional animosities, saying "This sad chapter of ill-will must end."

In this regard, Mr Bush urged both sides to reach a solution to their 27-year deadlock over the divided island of Cyprus. "We have seen too much change in this region and throughout the world to stand for the status quo in Cyprus," he said.

However, as throughout his tour, Mr Bush insisted he was offering no fresh US peace formula. Addressing himself to both Greece and his hosts, he said: "The solution lies in your hands."

On Saturday Mr Bush offered his explicit backing for Mr Ozal's proposal for quadripartite talks embracing Turkey, Greece and the Turkish and Greek Cypriot communities. Greece has rejected the plan, claiming it accords unjustified status on the Turkish Cypriot community, which only Turkey has recognised as a state since its 1974 invasion of the island's north.

Washington apparently hopes that the formula can be made to work by fudging the status of the interlocutors for each Cypriot community, so that for instance they would be described as "leaders", or "representatives", rather than as presidents in each case. "The question is a question of community, not personality," Mr Bush said on Saturday.

However, this will succeed only if President George Vassiliou, the Greek Cypriot leader, and Mr Rauf Denktaş, who in his own and Turkish eyes is the president of northern Cyprus, can be persuaded to accept the formula – something over which UN officials in New York express the gravest doubt.

Turkish President Turgut Ozal (right) points out the sights of Istanbul to US President George Bush yesterday, the second day of Mr Bush's visit

Banks 'rush to lend money to Kuwait'

KUWAIT says international banks are clamouring to offer it money following its decision to borrow billions of dollars on world capital markets to finance post-Gulf war reconstruction, Reuter reports from Kuwait.

Kuwait did not want to borrow the full $33bn authorised by the emir last week, finance minister Nasser al-Rodhan was quoted as saying in the al-Watan newspaper yesterday.

He put planned borrowing at less than KD7bn ($23bn).

"Many offers have come to us from big financial institutions and at very attractive rates of interest and lower than those offered to other corporations and countries," he said.

Kuwait, its oil industry left in tatters by the Iraqis, last week put a ceiling of KD10bn on its post-war borrowing. "We set this ceiling so that we need not resort to amending the law [to authorise more] if the need arose. But the need will definitely be lower than the ceiling," Mr Rodhan said.

He said Kuwait had decided against dumping its $100bn-plus foreign investments because of the impact such a move would have on world equity markets.

"The Kuwait Investment Authority has begun surveying markets around the world to borrow money.

"These funds will be made available to finance the proposed budget for 1991-92 and other financial commitments that arose as a result of the Iraqi occupation and part of the costs of liberating the country," Mr Rodhan said.

Kuwait, deprived of its main income, needs cash to finance its budget, post-Gulf war reconstruction and pay for the war efforts of the US-led military alliance which liberated it from seven months of Iraqi occupation on February 26.

Retreating Iraqi soldiers set fire to up to 600 Kuwaiti oil wells, most of which are still burning. Kuwait could produce 2m barrels of oil a day before the invasion. It is now pumping about 140,000 barrels.

Settlements obstacle for Israel

The Arabs fear Israel's drive to "create facts on the ground" is fast narrowing the chance of peace based on the return of occupied territory, Hugh Carnegy writes

IN the Jewish settlement of Adam yesterday morning, on a West Bank hilltop north-east of Jerusalem, work was going on apace on a row of new houses designed for families who have been living in mobile homes on the site.

Saudi Arabia had just joined Egypt in proposing that Arab states would end their economic boycott of Israel if Israel froze its fast-growing building of settlements in the occupied territories, which they and much of the international community regard as illegal. Mr James Baker, the US secretary of state, who has called for a settlement freeze to ease the path to Middle East peace talks, was due in Jerusalem shortly.

If all this bothered the head of Adam's settlers, who gave his name only as Beber, he wasn't letting on. "I don't talk to journalists," he said.

"We live here because we like to live here, not because of ideology or politics." He quickly shut the door behind him which led to his office wherein hung a portrait of Mr Menachem Begin, the former prime minister, a signed photo of Mr Yitzhak Shamir, the present incumbent, and flags of their Likud party.

A short distance away, at Ma'ale Mikmash, a religious settlement, a resident was more forthcoming in giving details. There are, he said, 60 families in the 10-year-old settlement, with 30 new houses under construction. Sixteen mobile homes have been brought in this year for families awaiting new homes.

The two settlements are testament to a recent surge in settlement building, under the auspices of Mr Ariel Sharon, the hardline housing minister, which has infuriated the local Palestinians, the wider Arab world and Washington. On a drive from Jenin, in the northern West Bank, to Jerusalem yesterday, all 10 settlements visible from the main road had new building work, new mobile homes or both.

Settlements are at the heart of the Israeli-Arab dispute. The Arabs fear Israel's drive to "create facts on the ground" is fast narrowing the chance of peace based on the return of occupied territory. By the same token, Mr Shamir, Mr Sharon and their supporters see the settlement drive as the best way to cement Israeli rule over the occupied lands.

Jewish settlement began soon after Israel captured the West Bank, the Gaza Strip and east Jerusalem from Jordan and the Golan Heights from Syria in 1967. But the pace accelerated after Likud first came to power under Mr Begin a decade later, when there were fewer than 10,000 settlers in the West Bank. Peace with Egypt in 1979 brought no halt to the policy.

By March this year, the US State Department estimated the numbers thus: West Bank – 90,000 settlers in 150 communities, half the land designated for Israeli use. Gaza – 3,000 in 15 settlements; one third of the land of all Gaza reserved for Israeli use; the Golan – 12,000 settlers in 30 settlements; east Jerusalem – 120,000 Jews in 12 Jewish suburbs.

The Jerusalem issue is especially sensitive. Israel annexed east Jerusalem soon after the Six Day War and treats it as an integral part of Israel, separate from the other territories. But when the international community – especially Arabs – talk of settlements, they include east Jerusalem.

Peace Now, the Israeli leftist group, estimates Mr Sharon's ministry spent about $500m in the occupied territories in the 1990-91 financial year. Housing starts rose from 579 in 1989, to 632 last year. Mr Sharon said he intends a total of no fewer than 13,000 over the next two years. Government-subsidised mortgage terms for settlers are significantly better than for those in "Israel proper."

There are official plans for a big expansion to link east Jerusalem to nearby Ma'ale Adumim, further encircling Jerusalem's Arab neighbourhoods.

By contrast, a recent detailed study by a British town planner of Israeli policy towards West Bank Arab villages showed that between 1986 and 1989, about 1,500 Palestinian houses were demolished because they did not have building permits – more than the number of permits that had been issued. The report estimated Jewish settlements received permits at six times the rate issued to Palestinians.

The latest settlement boom coincides with a loss of momentum in the Palestinian uprising in the territories. At Adam – as at most settlements – the building workers were almost all Arabs, working yesterday despite a general strike called by the uprising leadership. The scale of construction is such that even if Mr Shamir were to reverse his refusal to freeze new building, the backlog of unfinished work would keep the cement mixers turning for many months to come.

INTERNATIONAL NEWS

Bush faces tough Senate battle on China trade

By Lionel Barber in Washington

PRESIDENT Bush this week faces a stiff challenge to his China policy when Senate Democrats seek to attach conditions to the renewal of most favoured nation (MFN) trade status for Beijing.

The Senate vote is expected to be close, a reflection of widespread dissatisfaction over China's human rights record as well as its alleged unfair trade practices and its policy of exporting missiles and nuclear-related materials.

Mr Bush, a former US ambassador to Beijing who takes special pride in his China policy, requires at least 34 votes to sustain a veto of legislation proposed in the Senate attaching conditions. Since Mr Bush has yet to lose a veto fight, a defeat on China would amount to a serious setback.

The administration has already lost the battle in the House of Representatives, with members voting overwhelmingly to attach conditions to MFN status before it can renewed in 1992.

Legislation proposed by Senator George Mitchell, Senate majority leader, and other leading Democrats, would allow MFN to go forward this year. But it would cut off the trade benefits if China exported certain medium-range missiles to Pakistan, Iran or Syria.

The administration mounted a last-minute effort last Friday to counter the Mitchell bill. In a 20-page letter, Mr Bush promised to crack down against imports of goods produced by slave labour and to renew opposition to IMF or World Bank loans to China until Beijing improved its human rights record.

Senator Max Baucus, a Montana Democrat who supports Mr Bush's decision to renew MFN for China, said the administration had also agreed to use Section 301 of US trade laws to open Chinese markets – if bilateral talks failed to yield results next month.

Separately, Mr Bush has promised to "work actively" with other parties to support Taiwan's request to join the General Agreement on Tariffs and Trade. Mr Baucus described this as a "breakthrough", even though US policy acknowledging Beijing's position that there is only one China remains unchanged.

The whiff of hyperbole suggests that Mr Bush's supporters in the Senate recognise they have a battle on their hands to defeat Senator Mitchell's bill. Mr Mitchell said that Mr Bush's letter was "mostly rhetoric" and provided no remedy on human rights – an assessment shared by Asia Watch, the human rights monitoring group.

The administration argues that removing MFN status – which is enjoyed by 100 countries – would undermine reformers and deprive the US of influence.

S African opposition leaders call for de Klerk to quit

SOUTH African opposition figures and newspapers called at the weekend for the resignation of the ministers of law and order and defence – respectively Mr Adriaan Vlok and General Magnus Malan – following the government's admission that it had made secret payments to the mainly Zulu Inkatha party, Patti Waldmeir reports from Johannesburg.

Anglican Archbishop Desmond Tutu, a leading anti-apartheid cleric, went so far as to demand the resignation of President F W de Klerk, if it were to emerge that he had known of the funding. The far-right Conservative party also demanded his resignation, saying the payments to Inkatha proved government deceit and violated basic principles of democracy: "Any head of government would resign immediately under such circumstances."

Mr Kobus Jordaan, an opposition Democratic Party MP, said he had evidence of much larger secret payments than those hitherto revealed, as much as R5m (£1m) having gone to Uwusa, the Inkatha trade union, he claimed. However, to protect his source, he would not release this evidence, he said.

The authoritative Sunday Times newspaper in South Africa said in an editorial that Mr de Klerk was "in danger of being dragged down by the sinister forces that lurk in his government.

"For thousands, perhaps millions, of South Africans who, like Mr Mandela, took President de Klerk at face value and gave him their sympathy and support, it is becoming increasingly difficult to suspend judgment. The kindest interpretation of events is that he has failed, so far, to establish proper control of his government," it added.

Last night, Inkatha's national conference in Ulundi unanimously re-elected Chief Mangosuthu Buthelezi as party leader. He has been severely embarrassed by the revelation of government funding, which he claims was made without his knowledge.

Friction from putting brake on dirty tricks

Patti Waldmeir assesses the scandal over official funding for Inkatha in South Africa

TWO DAYS after Mr Nelson Mandela was released from prison in February last year, the National Party government in South Africa was working to undermine him.

While Mr Mandela, leader of the African National Congress, was risking much to persuade his followers to trust the Nationalists, ministers were authorising secret payments to the ANC's bitter political rival, the mainly Zulu Inkatha movement.

Such trust – on which a negotiated political solution in South Africa must be based – has been severely damaged by revelations of clandestine governmental dealings with Inkatha. Indeed, the ensuing scandal has provoked the most serious crisis of President F W de Klerk's two years in office.

The sums paid to Inkatha (first revealed on Friday in South Africa's Weekly Mail newspaper, then confirmed by the government) are relatively small: R250,000 (£53,400).

Also, as Pretoria points out, they were made before Mr de Klerk announced a new, less sinister policy on covert operations a year ago. Furthermore, it is not clear whether he knew of the payments, made to fund Inkatha rallies in Natal. Considering the small size of the sums, he might not have been told.

Chief Mangosuthu Buthelezi is raised aloft by members of the Inkatha Freedom Party, to whose presidency he was re-elected yesterday

Even so, the government's admission that it has financed Inkatha, which was forced on it by the publication of internal memos from the security police, must lend credence to claims that the government has been involved in far more scurrilous activities than paying for banners and stadium hire. In recent months, former members of security forces have made numerous uncorroborated allegations about involvement by such forces in violence between Inkatha and the ANC, which has left 2,000 people dead over the past year. Those claims remain unproven, but the temptation to believe them has grown.

In this atmosphere of distrust and suspicion, there can be little progress towards talks on a new constitution. Mr Mandela, now president of the ANC, made this point when he first heard of the admission of funding for Inkatha.

It seems unlikely, though, that the fracas will lead to a complete breakdown in contacts. A working group which brings together the ANC, Inkatha, the government, church people and business is to go ahead this week in an attempt to end the violence. Until that is halted, as Mr Mandela has often made clear, talks on a new constitution cannot proceed in any case.

Indeed, the ANC's comments on the scandal have been oddly muted. Mr Mandela said on Friday night: "If the government continues with these criminal operations, it is doubtful we can avoid a complete breakdown in relations." This left the possibility that, if the government could prove such support had ceased, damage would be limited.

Since then, Mr Mandela and other ANC spokesmen have moderated their comments even further, pointedly refusing to exploit the government's embarrassment. They have limited themselves to calling – once again – for the resignation of Mr Adriaan Vlok, law and order minister, and General Magnus Malan, defence minister, but have not tried to make their rivals squirm.

For all that, the damage to Mr de Klerk's credibility is severe. For months, he has protested to all who would listen – including foreign governments – that Pretoria is not trying to sabotage the ANC.

In April, he told parliament in Cape Town: "It is not government policy to render direct or indirect financial or other support to any political party or organisation, except government aid made available for a specific purpose on an equal basis, such as the payment of constituency allowances."

All of this must raise serious questions about his personal integrity or his ability to control his ministers and the security forces. The ANC has often accused the government of having a double agenda. What remains unclear is whether Mr de Klerk is himself pursuing such an agenda or failing to prevent others doing so.

These questions must be resolved before constitutional talks can proceed. To re-establish that crucial trust between himself and Mr Mandela, Mr de Klerk must prove both that funding to Inkatha has ceased and that he is ensuring that unofficial support for Inkatha – from what the ANC believes is a "third force" inside the security services – is also being stopped.

Dismissal of Mr Vlok and Gen Malan would improve relations with the ANC, but this seems unlikely at this stage.

The president is likely to take some public action to limit the damage, especially if, as expected, there are further revelations of government involvement with Inkatha.

The de Klerk government has weathered several recent scandals, including those from infiltrating spies into local government and allegations that security force squads had murdered anti-apartheid activists.

This latest trouble seems unlikely to blow over so easily. Confidence in Mr de Klerk has been shaken among South Africans in general and foreign governments.

To restore it, he must force his colleagues to abandon the dirty tricks which were the hallmark of successive South African administrations. Unless he does, no one will believe that the bad old days of apartheid are really near an end.

Big oil spill off Western Australia

A GREEK oil tanker broke up and spilled 10,000 to 20,000 tonnes of light crude into the sea off the west coast of Australia yesterday, creating what authorities described as a catastrophic spill, Reuter reports from Sydney.

The spill was estimated at eight miles long and 1,000 yards wide.

"It's a catastrophe, a major oil spill. It cannot be contained as it is now," a maritime official said in Perth.

Conservation officials said hundreds of people had volunteered to help clean the spill, which threatened conservation zones and five islands supporting seabirds and colonies of Australian sea lions.

The Kirki, carrying 80,000 tonnes of oil from the Gulf to Kwinana, south of Perth, radioed for help in the early hours yesterday, having reported a fire on board.

Rescuers on military and civilian helicopters found the ship severed at the bow and oil spewing into the sea off Cervantes, a fishing town 105 miles north of Perth.

The Kirki's 37 crew members were airlifted to Perth.

● Mr Bob Hogg, national secretary of Australia's ruling Labor party, has been charged with breaching electoral laws by failing to disclose thousands of small donations.

He told Australian Broadcasting Corporation radio yesterday he had been summonsed for failing to notify the Electoral Commission of donations to the party totalling more than $A400,000 (£183,000) over three years. He denied wrongdoing, saying the matter was an honest mistake.

Indian budget may cut defence spending

By K K Sharma in New Delhi

THE Indian government has hinted strongly that it may cut defence spending in an attempt to tackle the sharply deteriorating fiscal imbalance and the balance of payments crisis.

A pre-budget survey of the economy in the past year and its prospects, presented to parliament at the weekend, points out that fiscal imbalances are at the root of India's economic problems. This is attributable "to the excessive growth of government expenditure".

The two main areas where expenditure can be cut are identified as defence and subsidies, and it is likely the axe will fall on both when the government's annual budget is put to parliament on Wednesday.

The allocation for defence in 1990-91 was a high Rs158bn (£3.8bn). Although inflation is in double figures, a reduction in real terms can be expected in the current year. The survey makes clear that "it is necessary to programme defence expenditure on the basis of a realistic assessment of the strategic environment and assumptions of maximum cost effectiveness".

The survey also points out that "it is essential to rationalise the major subsidies on exports, fertilisers and food which have reached levels that are unsustainable". Since export subsidies have been cut this month, those on fertilisers and food are expected to be sharply reduced in the budget.

India is already committed to reduce its fiscal deficit as part of conditions for obtaining a $5bn-$7bn loan from the International Monetary Fund to tackle its balance of payments crisis. Its commitment to reduce government expenditure and raise both direct and indirect taxation have now been officially affirmed.

The survey states: "The time has come to start making necessary macro-economic adjustments" and "this will mean hard decisions and difficult choices because the soft options have been exhausted". It warns of austerity measures in the budget and of need for strict measures to improve the budgetary and balance of payments position.

Despite recent measures, the survey warns that "the pressures on the balance of payments are likely to persist through the current year", notwithstanding the respite provided by IMF assistance.

The survey speaks of the many "uncertainties" that the economy has undergone in the past year, including domestic political instability, the impact of the Gulf crisis on the balance of trade and inflation.

However, it expects the economy to register a growth of about 5 per cent in gross domestic product in 1990-91.

But the survey notes that "macro-economic imbalances characterised by high fiscal deficits and growing revenue deficit have continued to remain a major source of concern for the government during the past few years". The crux of the problem is the high trade deficit which was financed by heavy external borrowings. This worsened in 1990-91 when oil imports reached a record Rs108bn, 72 per cent higher than in the previous year.

Aid to Zambia jeopardised

AID donors, furious with Zambia for failing to implement a tough economic reform programme, are ready to stop funds to the southern African country before its first multi-party election in two decades, western diplomats say, Reuter reports from Lusaka.

But Mr Jacques Bussières, Bank of Zambia governor, said the country had devised emergency measures to appease donors at an informal meeting in Paris tomorrow.

"Zambia has made a major effort to control finance and keep the programme on track. I'm sure donors will acknowledge that," Mr Bussières, who is a Canadian, said.

President Kenneth Kaunda, eager to extend his 27 years in power through the election in October, angered financial institutions in May by saying he would delay subsidy cuts on the country's staple food, maize, for six months.

Aid donors insist Zambia must cut the subsidy by 5-10 per cent a month if it wants more balance of payments support.

Two previous attempts to raise maize meal prices have led to bloody anti-government riots.

Zambia has reneged on two International Monetary Fund programmes since 1985 and this plan is seen as its last chance for international funding.

Economists said the unfunded domestic budget deficit was 11bn kwacha (£86m).

Little Asean progress

By Alexander Nicoll and Lim Siong Hoon in Kuala Lumpur

MEMBERS of the Association of South-East Asian Nations (Asean) took tentative steps towards closer economic co-operation at a weekend meeting of the six countries' foreign ministers.

Little concrete progress on economic ties was made at the annual gathering of ministers from Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand.

They agreed that a proposal from Thailand, that Asean should aim to be a free trade area by 2000, be further discussed and submitted to the next summit of Asean leaders in January. Only 20 per cent of Asean countries' trade is with fellow members.

Malaysia's proposal for an East Asian Economic Grouping, involving Asean its northern neighbours, made little headway. Ministers discussed it briefly and agreed only to hold further working group meetings on it.

INTERNATIONAL ECONOMIC INDICATORS: BALANCE OF PAYMENTS

Trade figures are given in billions of European currency units (Ecu). The Ecu exchange rate shows the number of national currency units per Ecu. The nominal effective exchange rate is an index with 1985=100.

UNITED STATES

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1984	275.8	-136.8	-125.5	0.7891	98.9
1985	279.8	-174.2	-160.5	0.7623	100.0
1986	230.9	-140.6	-147.8	0.9836	80.2
1987	220.2	-131.8	-138.8	1.1541	70.3
1988	272.5	-100.2	-105.7	1.1833	68.0
1989	330.2	-99.8	-95.5	1.1017	69.4
1990	308.8	-79.8	-72.3	1.2745	65.1
2nd qtr.1990	80.6	-18.1	-18.1	1.2223	67.8
3rd qtr.1990	74.8	-21.3	-18.4	1.2990	64.1
4th qtr.1990	74.2	-18.6	-17.1	1.3714	60.8
1st qtr.1991	75.8	-12.6	7.8	1.3484	61.8
June 1990	27.7	-6.2	n.a.	1.2227	67.5
July	25.5	-7.3	n.a.	1.2825	65.8
August	24.8	-7.1	n.a.	1.3192	63.7
September	24.5	-6.9	n.a.	1.3155	63.0
October	25.5	-7.3	n.a.	1.3586	60.9
November	24.2	-6.9	n.a.	1.3861	60.2
December	24.5	-4.8	n.a.	1.3718	61.2
January 1991	25.1	-5.4	n.a.	1.3626	61.0
February	24.2	-4.0	n.a.	1.3897	60.2
March	26.8	-3.2	n.a.	1.2779	63.9
April	29.5	-3.7	n.a.	1.2092	66.6
May	29.6	-3.6	n.a.	1.1925	68.0

JAPAN

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1984	213.8	56.7	44.1	187.03	97.9
1985	230.8	76.0	54.5	180.50	100.0
1986	211.1	96.2	86.6	165.11	124.4
1987	197.3	86.1	75.2	166.58	133.2
1988	219.6	80.7	69.5	151.51	147.3
1989	245.4	70.3	62.3	151.87	141.8
1990	219.8	50.0	28.4	183.94	128.0
2nd qtr.1990	53.7	11.1	6.5	189.78	119.6
3rd qtr.1990	54.3	12.7	5.4	186.35	123.7
4th qtr.1990	56.2	12.5	4.3	179.36	135.8
1st qtr.1991	58.2	19.6	13.3	179.59	132.1
June 1990	18.6	4.9	2.8	185.00	120.7
July	18.1	4.1	1.3	188.16	122.2
August	17.7	4.4	2.2	194.52	120.8
September	18.4	4.2	1.8	182.36	126.5
October	18.4	4.3	1.8	175.95	135.6
November	18.4	4.2	1.5	178.84	134.8
December	18.3	4.0	0.9	183.34	130.9
January 1991	18.7	5.2	2.8	182.11	131.1
February	18.4	7.7	4.2	181.23	133.2
March	21.2	6.6	6.3	175.44	132.0
April	18.7	6.5	6.4	165.80	135.7
May	20.9	5.9	4.9	164.82	135.4

GERMANY

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1984	*218.3*	*24.2*	*12.5*	*2.2387*	*100.0*
1985	*242.8*	*33.3*	*21.7*	*2.2259*	*100.0*
1986	*249.6*	*53.6*	*40.3*	*2.1279*	*108.8*
1987	*254.2*	*58.7*	*39.8*	*2.0712*	*115.3*
1988	*272.6*	*61.7*	*42.8*	*2.0739*	*114.6*
1989	*310.5*	*65.8*	*52.0*	*2.0687*	*113.5*
1990	*324.2*	*51.4*	*37.7*	*2.0537*	*119.1*
2nd qtr.1990	*77.8*	*14.1*	*8.9*	*2.0507*	*118.7*
3rd qtr.1990	82.1	12.4	7.2	2.0682	118.8
4th qtr.1990	82.6	7.2	6.2	2.0590	120.0
1st qtr.1991	81.9	3.4	-4.5	2.0560	119.6
June 1990	*25.2*	*4.0*	*1.5*	*2.0592*	*118.0*
July	27.1	4.4	2.2	2.0679	119.2
August	27.6	4.1	1.9	2.0713	119.0
September	27.4	3.8	3.2	2.0683	118.7
October	28.1	4.5	3.3	2.0679	119.0
November	27.8	1.5	0.8	2.0583	120.2
December	26.5	1.3	2.1	2.0506	120.8
January 1991	26.4	0.7	-1.0	2.0560	120.2
February	26.7	1.4	-0.7	2.0567	120.7
March	26.8	1.5	-2.8	2.0554	118.6
April	25.0	0.3	-1.2	2.0606	116.4
May	27.3	-0.7	-1.9	2.0523	116.3

FRANCE

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1984	123.7	-3.6	-1.1	6.8746	[illegible]
1985	133.4	-4.5	-0.2	6.7941	100.0
1986	127.1	-0.1	3.0	6.7946	102.8
1987	128.3	-4.5	-3.6	6.9267	103.0
1988	141.8	-4.6	-3.4	7.0364	100.8
1989	162.8	-6.8	-4.1	7.0169	99.0
1990	170.0	-7.3	-8.4	6.9202	104.8
2nd qtr.1990	42.1	-1.6	-2.4	6.8968	104.7
3rd qtr.1990	41.9	-2.7	-2.7	6.9343	104.9
4th qtr.1990	42.2	-2.4	-1.0	6.9400	105.6
1st qtr.1991	42.4	-2.0	-2.4	6.9904	103.9
June 1990	14.2	-0.50	-0.57	6.9286	104.1
July	14.0	-0.65	-0.87	6.9363	104.4
August	14.2	-0.75	-0.41	6.9496	106.1
September	13.8	-1.37	-1.40	6.9172	105.3
October	14.8	-0.64	-0.42	6.9255	105.5
November	14.4	-0.20	0.16	6.9299	105.8
December	13.1	-1.34	-0.78	6.9645	105.3
January 1991	14.5	-0.82	-0.27	6.9846	104.7
February	13.9	-0.48	-1.17	7.0006	104.8
March	13.9	-0.65	-0.69	6.9951	103.2
April	14.7	-0.27	-0.69	6.9611	102.4
May	14.2	-0.29		6.9565	102.0

ITALY

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1984	93.4	-13.9	-5.2	1381.5	105.9
1985	103.7	-16.0	-5.4	1443.0	100.0
1986	99.4	[illegible]	[illegible]	[illegible]	101.4
1987	100.7	-7.5	-2.1	1494.3	101.2
1988	108.3	-8.8	-8.0	1536.8	97.8
1989	127.8	-11.3	-17.0	1509.2	98.6
1990	133.6	-9.3	-18.9	1523.2	100.6
2nd qtr.1990	35.4	-1.4	-5.3	1505.1	101.4
3rd qtr.1990	31.2	0.2	-2.2	1527.7	100.7
4th qtr.1990	35.8	-2.0	-7.7	1547.5	99.8
1st qtr.1991	32.4	-4.2	-4.0	1540.7	100.1
June 1990	12.8	0.6	-1.5	1511.9	101.0
July	13.0	1.3	-1.0	1514.7	101.2
August	7.5	0.2	0.1	1528.2	101.2
September	10.7	-1.2	-1.2	1542.3	99.7
October	12.4	-1.0	-2.7	1549.3	99.4
November	10.9	-2.4	-2.1	1547.4	99.9
December	12.5	1.3	-3.0	1545.6	100.1
January 1991	9.9	-3.2	-3.4	1545.7	100.0
February	11.3	-0.6	-2.6	1543.2	100.5
March	11.1	-0.3	-1.9	1533.1	99.8
April	11.4	-1.5	-2.7	1528.4	98.9
May	11.3	-2.1		1522.7	98.7

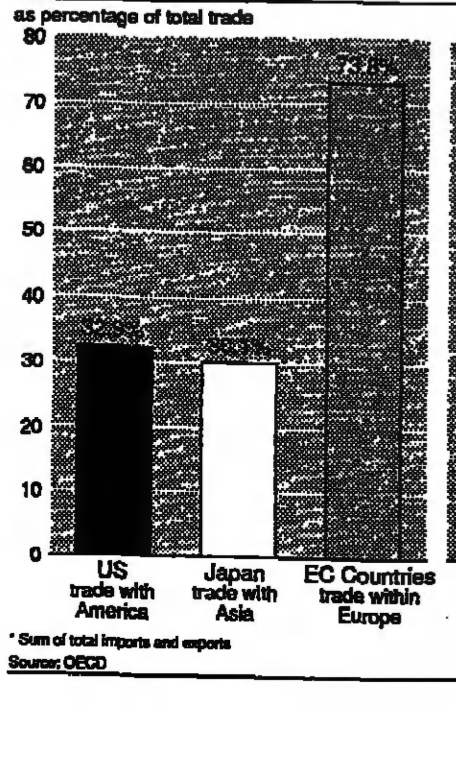
UNITED KINGDOM

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1984	118.9	-8.7	3.1	0.5908	100.6
1985	132.4	-3.3	4.7	0.5891	100.0
1986	108.3	-14.0	-0.0	0.6708	91.6
1987	112.7	-15.9	-5.3	0.7047	90.1
1988	121.5	-31.7	-23.1	0.6643	95.5
1989	137.6	-35.4	-29.2	0.6728	92.6
1990	144.1	-25.0	-19.5	0.7150	91.3
2nd qtr.1990	35.8	-7.2	-4.7	0.7300	88.6
3rd qtr.1990	36.5	-6.5	-4.1	0.6976	94.2
4th qtr.1990	36.8	-4.2	-2.3	0.7090	94.1
1st qtr.1991	36.7	-4.0	-3.7	0.7039	93.6
June 1990	12.0	-2.3	-2.1	0.7163	90.4
July	11.8	-2.8	-2.4	0.6960	93.5
August	12.3	-1.6	-1.6	0.6944	93.5
September	12.7	-1.0	-0.1	0.7001	93.8
October	12.5	-1.6	-0.9	0.6974	94.8
November	12.4	-1.4	-0.8	0.7055	94.2
December	11.9	-1.2	-0.8	0.7123	93.3
January 1991	11.8	-1.8	-1.7	0.7042	94.1
February	11.8	-1.0	-0.9	0.7070	94.3
March	12.1	-1.2	-1.1	0.7005	92.9
April	12.3	-1.2	-0.6	0.6916	92.3
May	12.3	-1.3	-0.7	0.6925	91.7

All trade figures are seasonally adjusted except for the Italian series and the German current account. Imports can be derived by subtracting the visible trade balance from exports. Export and import data are calculated on the FOB (free on board) basis, except for German and Italian imports which use the CIF method (including carriage, insurance and freight charges). German data up to and including June 1990, shown in italics, refer to the former West Germany. The nominal effective exchange rates are period averages of Bank of England trade weighted indices. Data supplied by Datastream and WEFA from national government and central bank sources.

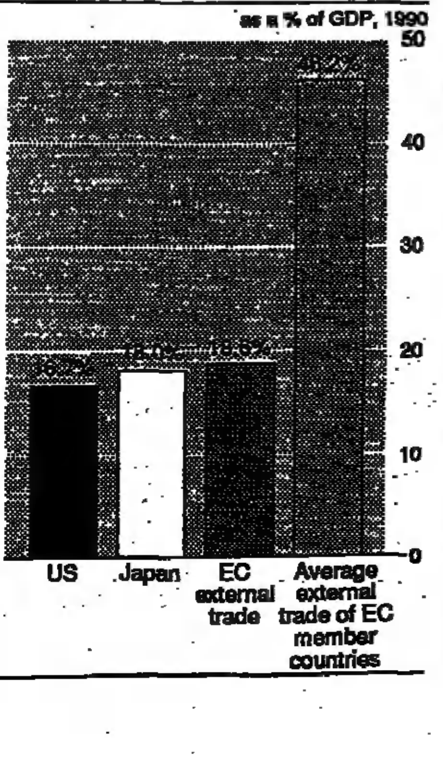
Intra continental trade,* 1990

as percentage of total trade



How important is trade* ?

as a % of GDP, 1990



* Sum of total imports and exports
Source: OECD

How important is trade within regions of the world?

LAST WEEK, leaders of the seven largest industrialised countries agreed to try to complete the Uruguay Round of trade negotiations, within the General Agreement on Tariffs and Trade, by the end of this year. This aspiration was greeted with considerable scepticism. A year ago, at the Houston summit, the G7 leaders had made a similar commitment; six months later the negotiations collapsed.

Why has so little political effort been devoted to completing the Uruguay Round? Perhaps the recent spate of regional free-trade initiatives means that global trade liberalisation is no longer a priority for the G7 countries.

The EC member countries have certainly been preoccupied by the need to remove trade barriers between EC members before the Community's single market programme takes effect in 1992. The EC is also negotiating a European Economic Area with the seven members of the European Free Trade Association.

The US has begun negotiations with Mexico and Canada intended to lead to a North American free trade area; while Argentina, Brazil, Paraguay and Uruguay have formed a South American southern cone common market, Mercosur. Ministers from these four countries met last weekend to discuss the plan to integrate their economies by 1995.

Meanwhile, the foreign and economic ministers of the Association of South-East Asian Nations (Asean), were meeting in Kuala Lumpur. Their main topic was a Malaysian government proposal to establish an east Asian free trade area. The proposed area would include Asean and its developed, northern neighbours, though Japan expresses a lack of interest.

None of these developments is inconsistent with Gatt. Both customs unions and free trade areas are within Gatt rules, subject to two conditions: that obstacles of the members to external trade shall be no more restrictive after the formation of the free trade area than before, and that obstacles to trade between members of the free trade area are "substantively limited" on all products originating within the region.

Yet, if the Uruguay Round does fail, and a rise in trade barriers results, could a trade war between rival blocs be in prospect?

In fact, the importance of intra-regional trade for at least two of the three continents represented at the G7 summit last week is modest, as the left-hand chart confirms. So the growth of these regional trading blocs does not, in itself, constitute a threat to world trade.

Neither the US nor Japan is likely to pursue regional trade links to the detriment of its wider trade interests. Only 32.9 per cent of US total trade in 1990 was conducted with other American countries, while just 28 per cent of US exports went to Mexico and Canada. Japan's scepticism at the Asean plan is partly explained by the fact that only 30.1 per cent of total Japanese trade was with other Asian countries last year.

The EC member countries are the exception. The majority (59.7 per cent) of EC members' trade was with other members in 1990, and 73.8 per cent with European countries. Little wonder that the top priority for the EC is removing internal barriers to intra-European trade.

Why do the US and Japan not place a greater emphasis on trade liberalisation? The real problem for the Gatt negotiations is that trade plays a relatively small role in the affairs both of the US – because it is geographically large – and Japan, even though it is smaller.

Total US trade last year was equivalent to 16.7 per cent of gross domestic product, compared to an average for the individual EC member countries of 46.2 per cent. Once the single market is complete, the EC will look, and probably behave, like the US. The external trade of EC members with non-EC countries was only 1.9 percentage points of GDP higher than total US trade last year.

This does not bode well for the developing countries, which stand to lose the most if the Gatt negotiations fail. The World Bank estimates that the average merchandise-exports-to-GDP ratio of the low- and middle-income countries was 15.9 per cent in 1990, compared to 6.7 per cent for the US and 9.4 per cent for Japan. Developing countries were not represented at the summit last week.

Edward Balls

Government seeks public service accountability

By Ivo Dawnay, Political Correspondent

THE GOVERNMENT will today unveil its long-awaited Citizens' Charter with pledges to force greater accountability on local authorities, nationalised industries and ministry departments through enhanced performance targets and new consumer rights.

Among the measures expected are a greater role for the Audit Commission in monitoring local councils, action to reduce waiting times in the National Health Service and access to information on schools' results to broaden parental choice.

But with the Treasury doggedly resisting measures that would raise public expenditure, the emphasis of the charter will centre on making public services more accountable and "user-friendly" rather than imposing financial penalties for poor provision.

It is understood that plans to give British Rail passengers a right to financial recompense if services do not meet specified standards have been "diluted" alongside measures to review the powers of regulators for the newly privatised utilities.

Ministers are already braced for an onslaught of criticism from opposition parties, determined to undermine what has been presented as Prime Minister John Major's personal initiative and a key component in the Tories election manifesto.

The white paper comes at the start of a hectic final week of business prior to the summer holiday recess.

Tomorrow, the government is due to publish details of its armed services cutbacks alongside a report into the Gulf "friendly fire" tragedy in which British servicemen were killed by US aircraft.

At the same time, the Cabinet will meet for its annual pre-holiday discussions on the public expenditure round, amid reports that Whitehall departments have submitted "bids" amounting to well over £10bn above last year's spending.

Other scheduled announcements include publication by Mr Michael Heseltine, the environment secretary, of next year's Revenue Support Grants (RSG) for local authorities and, on Wednesday, the green paper on trade union reform.

Yesterday, Labour attempted to pre-empt the Citizens' Charter white paper with a series of demands for new controls on the privatised utilities. Mr Gordon Brown, the trade spokesman, said that the opposition would not be satisfied if the government failed to promise new legislation in the autumn to boost the powers of regulators.

In particular, Mr Brown argued that Oftel, the British Telecom consumers' watchdog agency, should be given the right to penalise high executive salaries and other "boardroom abuses" by restricting rises in telephone charges or offering rebates to phone users.

Labour was also preparing to launch its own consumers' charter for rail users.

Party officials claimed yesterday that private polling of a weighted sample of over 800 voters showed 59 per cent viewed the Citizens' Charter as "a gimmick" with 29 per cent disagreeing.

However, there was some cheer for the government yesterday in an Observer/Harris opinion poll showing the Conservatives have narrowed Labour's poll lead from 10 per cent to 3 per cent.

Trade union law reform plans win little support from public

By Andrew Adonis

WITH the government set to publish plans for tough new curbs on trade unions later this week, an opinion poll published today reveals little public support for further legal restrictions.

The poll, carried out by NOP for the TUC, shows only 18 per cent public support for legislation to limit union rights further than already done by seven pieces of legislation passed since 1979, with 66 per cent opposed. Even Conservative voters are strongly against, with 21 per cent in favour and 68 per cent against.

The poll also shows 93 per cent popular support for a legal right for an employee to trade union representation when in dispute with an employer, and 85 per cent support for legal rights to a minimum wage, for limits on hours of work and for rights to minimum number of days paid leave. The government is strongly opposed to enshrining any of those rights in law – British or European.

"Union bashing is unworthy of the government", said Mr Norman Willis, TUC general secretary. "Every other country in the European Community preaches and practises social partnership at work - this poll shows the British people want this too".

The green paper, to be launched later this week by Mr Michael Howard, employment secretary, will feature a series of controversial measures to be enacted should the Conservatives win the next election.

Under the proposals, unions would be required to observe a seven-day cooling-off period before calling strike action after a successful ballot. They would also be obliged to give employers notice of precisely what industrial action was to be taken.

An inter-union agreement by which the TUC determines which union should represent a group of workers would be over-ridden. Instead, employees would be able to choose which union they wished to join.

More stringent financial reporting rules for unions, and enhanced powers for the trade union certification officer, will also be proposed. Ministers are also considering giving individuals a right to compensation for loss resulting from unofficial industrial action.

THE BCCI SHUTDOWN

Bank accounts 'used to finance Arab terrorism'

By Alan Friedman in New York

A STRUGGLE between US government agencies and law enforcement officials over the investigation of the BCCI affair was building yesterday amid evidence that accounts at the bank's London branches were used to finance Arab terrorism – including the handling of accounts for Abu Nidal.

A US official who asked not to be named said he was aware of these accounts. The official confirmed that in the UK the Bank of England had discussed the matter with British intelligence services.

In Washington, the Department of Justice declined to "either confirm or deny" the existence of accounts at BCCI in London that were used to help finance the activities of Abu Nidal and other Arab terrorist groups.

Mr Robert Morgenthau, a Manhattan district attorney who has been investigating alleged money laundering by BCCI as well as the bank's secret control of First American Bancshares in Washington, said that for months the Justice Department had ignored his repeated requests for crucial BCCI documents and information, which the Justice Department also denied.

Both current and former investigators have said the Justice Department has been trying to ensure control of the BCCI case for itself and to hinder efforts by investigators outside the department.

Mr Morgenthau said that "representatives of the Justice Department have suggested to BCCI witnesses and to British government officials in London that they not co operate with our investigation."

The Justice Department responded swiftly saying: "We are not telling witnesses not to co operate with anybody." It added that "in every investigation we always co ordinate with state and local officials, including Mr Morgenthau's office." The disclosure of terrorist accounts at BCCI is the latest of a series of clandestine activities coming to light in the wake of the closure of the bank on July 5.

Auditors concerned at bad loans for over 10 years

By Richard Waters

THE AUDITORS of Bank of Credit and Commerce International had been concerned for more than 10 years about the way large bad loans were treated in the bank's books, according to a senior financial executive of the bank.

BCCI's attempts to disguise these bad loans, by breaking them into smaller amounts and shuffling them between different subsidiaries of the group, were at the heart of the fraud which led to the bank's closure. As early as 1980, loans to people connected to the bank were disguised in this way, according to the financial executive, who declined to be named.

The former BCCI financial officer said the Price Waterhouse partner responsible for the audit of BCCI (Overseas), the bank's subsidiary based in Grand Cayman, had repeatedly expressed concerns about the treatment of these loans in BCCI's books.

Despite its long-held concerns, Price Waterhouse never qualified any of its audit reports on the BCCI accounts.

Many of the loans shown in the books of the bank's Cayman operation originated in the London branch but were booked in the Cayman Islands for tax reasons.

According to the former executive, loans were passed by book entry between different subsidiaries with no supporting documentation. Interest which accrued on the loans was taken into the bank's profit and loss account, even though no interest was ever received.

The audit of the Cayman operations involved Price Waterhouse staff in both the Grand Cayman, where many of the loans were booked, and London, where documentation was meant to kept.

BCC(E) may take over branches in Pakistan

By Farhan Bokhari in Islamabad

A TAKEOVER bid for the three BCCI branches in Pakistan has been conditionally approved by the board of directors of the Bank of Credit and Commerce (Emirates), the United Arab Emirates affiliate of BCCI.

The approval is conditional on a settlement of a final price this week with the State Bank of Pakistan, the central bank.

Last Tuesday, two senior BCC(E) executives formally told Mr I.A. Hanafi, Pakistan's central bank governor, of their interest in acquiring the BCCI branches. A senior banker yesterday said a settlement might take place this week.

Senior officials have said recently that they would like the BCCI branches to continue operations even under a new management such as the BCC(E), but would like to be certain that there are no legal issues involved. A BCCI banker said the future of the liabilities of the bank, especially its foreign-exchange commitments, would also need to be discussed.

About 500 people demonstrated through the streets of Hong Kong yesterday in protest at the bank's liquidation

Concern voiced over protection of assets

By Bernard Simon in Toronto

THE RECEIVER of BCCI's extensive operations in the Cayman Islands is concerned that authorities in some countries are failing to take the steps necessary to protect the assets of the scandal-ridden bank. Mr Ian Wight, the receiver, declined to identify the countries, but said there are others besides Pakistan, where BCCI's branches have remained open since the seizure of the bank's assets over the past two weeks.

BCCI's Cayman operation controlled branches in 29 countries around the world. Assets controlled from the Caymans reached a peak of $7bn in 1989. Mr Wight said authorities in some countries are considering paying out BCCI creditors "under some guise or another", which might be contrary to the interests of the creditor group as a whole. Mr Wight says he has warned the governments concerned that they could face legal action later.

Slower fall seen in London service sector

By Alan Pike

THE RATE of economic decline in London's service sector is slowing and there are signs of confidence recovering, the London Chamber of Commerce says in its quarterly economic trends survey today.

Warnings that service employers in the capital continue to face difficult conditions accompany the survey, but the chamber says the results disclose a modest slowing in the rate of decline in activity in the second quarter of 1991. This is the first evidence of a slowing down in the decline since the recession became obvious in mid 1990.

Altogether, 36 per cent of service-sector companies now predict that profits will increase in the next 12 months, compared with 26 per cent in the last quarterly survey. The proportion predicting cuts in investment in the coming year fell slightly from 32 per cent to 29 per cent between the first and second quarterly surveys.

Further reductions in interest rates were cited in the survey by 73 per cent of service-sector companies as the most important ingredient for improving business prosperity.

The slowing in the rate of decline in business activity for service companies was not reflected in London's manufacturing sector. The survey says jobs are now being lost at a faster rate in manufacturing companies than service ones.

A total of 62 per cent of manufacturers reported a fall in domestic orders in the second quarter – up slightly from 60 per cent in the first quarter – and 89 per cent of businesses were operating below full capacity compared with 81 per cent in the previous quarter.

The proportion of manufacturing employers reporting an overall reduction in staff rose from 41 per cent in the first quarter of the year to 52 per cent in the second.

The chamber predicts that London will continue to suffer disproportionately from job losses.

London Chamber of Commerce Quarterly Economic Trends Survey. 69 Cannon St, London EC4N 5AB. £12 members, £18 non-members.

Hard times turn the bloom into gloom in Bristol

Michael Cassell in a city that had to cancel its flower show

No escape: Bristol transformed its commercial base but still feels the recession

THE BLOOM has gone out of Bristol. With the commercial capital of the south-west wilting in the recession, the city's flower show has been cancelled for the first time in 46 years.

Mr Roy Smith, secretary of the Downend Horticultural Society and an exhibitor for 20 years, mourns the loss: "It's a very sad day. For many of us the show was the highlight of the year." No one can say with any confidence whether it will be revived in 1992.

The decision, announced by a charge-capped city council unable to attract a private sponsor to help meet the show's cost, follows the cancellation of the Bristol powerboat grand prix, which draws 250,000 visitors to Bristol from around the world. This year it failed to secure a corporate sponsor with £100,000 up its sleeve. Unexpected gaps in the city's busy calendar of events may not, at first glance, appear to be the stuff of crisis. Yet they help to confirm that, in spite of outward appearances, even Britain's economic strongholds are under siege.

The city still looks smart, its waterside cafés busy with tourists and stores in the Broadmead shopping centre selling high-margin "treats" to customers who are compensating themselves for cancelling the annual holiday. Even Verrechia & Sons, the local ice-cream makers, managed to put on a brave face when the brief, summer heatwave sent sales soaring.

Bristol has been regarded as one of Britain's "sun belt" cities. It has taken full advantage of an extended period of economic buoyancy to act to transform its commercial base, attracting new-technology industries and financial services while trying hard to maintain a declining manufacturing sector.

As traditional jobs have dwindled, jobs in banking, insurance and other financial services have flourished, creating more than 30,000 jobs and enabling Bristol to claim that it has become Britain's "second financial city".

New-technology companies have also poured in to help complete the picture of a dynamic local economy trying to cope with the familiar ailments of success, such as skills shortages and lengthening traffic jams.

For all its efforts, though, Bristol has not been able to escape. This time the recession has bitten deep into the type of economic activity that was not supposed to get badly hurt.

Many of the financial institutions that have moved into the city since the last recession are now shedding jobs. Employers in the insurance sector, such as London Life and Clerical, Medical and General, are engaged in redundancies. Banks and financial service companies are shedding increasing numbers.

Mr Mike West, the city council's director of economic development, says the recession is having a "devastating effect" on the Bristol economy, already facing the repercussions of a shake-out among defence contractors.

Rolls-Royce and British Aerospace directly sustain 17,000 jobs locally and support many more in the area. Bristol Polytechnic has just forecast that 40,000 out of 150,000 defence-dependent jobs in the south-west might be lost in the next 10 years.

With job losses across the board, unemployment in Bristol has already risen by more than a third in recent months to reach an average of 10 per cent. In some localities it runs as high as 25 per cent.

Mr Graham Robertson, leader of the Labour-controlled council – still clinging to its policy of avoiding compulsory redundancies – says the real tragedy of the decline in defence work is the potential loss of engineering and electronics skills. The trouble, he emphasises, will be compounded by the recession.

"Many of our small businesses could have absorbed the skilled workers looking for jobs but they are now under real pressure. Not only are they losing sub-contract work but they are being squeezed hard by the banks."

Mr Robertson is optimistic about Bristol's longer-term prospects but pessimistic about the immediate future. "I think it will get worse yet before it gets better."

The emphasis is on optimism at the Bristol Development Corporation, controversially instructed to redevelop about 900 acres of city-centre land but waiting for the economic revival necessary to help it achieve its ambitions.

Mr Miles Collinge, chief executive of the BDC, agrees that the local economy has suffered badly and admits that any further deterioration would spell disaster. "The recession will probably take longer to pull out of than many expect. But the idea that it might yet get worse is impossible to contemplate."

Mr Collinge looks for the silver lining. "The city faced problems of overheating and the setback has at least given us the opportunity to take stock and try and redress imbalances before targetting fresh, inward investment.

"The danger for a place like Bristol is that it can get a little complacent. Once that happens, it can become vulnerable. Investment today is highly mobile and there is a lot of competition from other commercial centres. The recession will help keep the place on its toes."

The Bristol Chamber of Commerce is more concerned about businesses managing to stay on their feet. Mrs Susan Marshall, director of public and policy affairs, says the recession is "cutting into the heart of companies" and maintains that there is no sign of the return in confidence that must precede a revival.

"Many small businesses which began with great optimism in the last few years have not managed to get themselves into a strong enough position to survive the downturn. There are severe cashflow problems and the result is a lot of insolvencies."

Cashflow means something rather different to Mr Ryan Cadby, sitting with his two adopted dogs in an empty doorway on College Green.

Mr Cadby is unemployed and says his wanderlust means he would not take a job if he was offered one. "The finances are not too bad because people dip into their pockets when they see the puppies. I let other people worry about the recession."

Road deal expected to be won by French

DEPARTMENT of Transport officials are close to awarding the contract to build Britain's first privately financed toll motorway to a French-led consortium containing four British construction companies, Andrew Taylor writes.

The 30-mile motorway to the north of Birmingham is expected to cost about £250m. The total bill, including financing costs, is likely to rise to about £500m.

The consortium now favourite to win the contract is led by Cofiroute, a large French toll road operator. It is being supported by Manufacturers Hanover, the US bank.

British members of the consortium include Robert M. Douglas, Alfred McAlpine, A. Monk and A.F. Budge. There are also three French contractors, Sogea, Jean Lefebvre and GTM International.

A joint venture between Trafalgar House, the UK construction, property, shipping and hotels group, and Italstat, Europe's largest toll road operator, had previously been considered favourite to win the contract.

The Cofiroute consortium is understood to have offered better financial terms. According to one construction company close to the deal, the Franco-British consortium is "90 per cent certain of winning the award".

Trafalgar House is bidding £114m for Davy Corporation, which owns Monk, one of the members of the Cofiroute consortium.

EMPLOYMENT

Morris ponders reshuffle among TGWU leaders

By John Gapper, Labour Editor

MR BILL MORRIS, the next leader of the Transport and General Workers' Union, is thought to be planning a reshuffle of the union's leadership that would include removing Mr Eddie Haigh from the Labour party national executive.

Mr Morris has told colleagues that he wants the union to be represented on Labour's national executive committee (NEC) by whoever is elected as his deputy. He is apparently unsatisfied by Mr Haigh's performance on the NEC.

Mr Morris wants the TGWU to mirror the National Union of Public Employees and the GMB general union by having its deputy leader on the NEC rather than Mr Haigh, who as TGWU assistant general secretary is the union's third-in-command.

The forthcoming election for TGWU deputy general secretary will be the first stage in a reorganisation of the union's leadership to coincide with the retirement of Mr Ron Todd as general secretary in March next year.

The two main candidates to become deputy to Mr Morris are likely to be Mr Jack Dromey and Mr Jack Adams, the national secretaries responsible for public services in the motor industry. Mr Morris is thought to favour Mr Adams.

If Mr Adams is elected, he could not join the Labour NEC because he is a member of the Communist party. In that event, Mr Morris may favour the nomination of Ms Margaret Prosser, at present the union's national officer for women.

Mr Morris is believed to have wanted a reshuffle under which Mr Adams would become his deputy, Mr Dromey would be appointed to a vacant assistant general secretary post and Ms Prosser would become the union's national organiser.

However, Mr Dromey resisted pressure from the union's left caucus to accept that arrangement rather than stand against Mr Adams. Mr Dromey is now unlikely to be appointed assistant general secretary if he loses the deputy leader election.

Although the TGWU has no automatic seat on the Labour NEC, it is virtually guaranteed that its nominee will be elected to one of the 12 union seats on the NEC because it is the largest affiliate to the party.

Mr Dromey declared on Friday that he would stand for the union's deputy leadership, which will be vacated by Mr Morris when he takes over from Mr Todd.

Mr Adams is believed to be considering declaring his own candidacy this week.

Union merger talks are 'constructive'

By Andrew Adonis

WEEKEND merger talks between the EEPTU electricians' union and the AEU engineering union were described as "constructive" and will continue over the summer.

A merged union would be more than 1m strong and would greatly simplify pay bargaining in British industry. Even so, it might cause dissension in the Trades Union Congress, from which the EEPTU was expelled three years ago after its refusal to accept TUC rulings on single-union agreements.

Mr Bill Jordan, AEU president, said yesterday: "The discussions were preliminary, but we expect to get to substantive issues soon."

Merger talks foundered two years ago when the AEU's national executive voted narrowly against merging with unions not affiliated to the TUC.

A merger would provide the EEPTU with a route back into the TUC. Pressure on it to find a way of rejoining increased last month when the annual conference of the Confederation of Shipbuilding and Engineering Unions voted to expel the EEPTU at the end of 1992 unless it takes steps to rejoin the TUC. The AEU abstained in the vote, with Mr Gavin Laird, AEU general secretary, describing the action as "a token of friendship" with the EEPTU.

Relations between the two unions on the shop floor are close, and in spite of difficulties likely to arise with the TUC, a merger with the cash-rich EEPTU is an attractive proposition for the AEU.

The dispute that led to the EEPTU's expulsion from the TUC concerned two single-union no-strike deals which the TUC said breached its so-called "Bridlington rules", designed to prevent inter-union poaching. The EEPTU claimed the rules undermined the right of individuals to join a union of their choice.

The two unions have radically different constitutions, which will make the merger negotiations complicated.

Fresh upward drift forecast

ALMOST half the UK population will be in the top three socio-economic groups by the year 2000, according to the Henley Centre for Forecasting.

In its annual Planning for Social Change survey, published today, the centre predicts a renewed drift in favour of professional and managerial jobs once the economy recovers. The proportion of the population in groups A, B and C1 will rise from less than a third in 1958 to almost 50 per cent by the year 2000.

With rising "discretionary income", the Henley Centre expects people to spend less time on watching television and cheaper home-based activities, and more on hobbies, sports and holidays that take them out of the living room.

The survey indicates a declining antipathy to foreign companies opening for business in the UK. Only 5 per cent of those asked would positively refuse to work in Britain for a European company, compared with 10 per cent two years ago.

Environmental concerns grow

NINE OUT of 10 consumers say that concern for the environment influences the products they buy to some extent or other, according to the annual Planning for Social Change survey published today by the Henley Centre for Forecasting.

Four out of 10 say environmental concerns are influential most or all of the time.

With concern about pollution continuing to grow at a steady rate, 11 per cent of people in the survey claimed that everything they bought was environmentally sound.

About a third were prepared to pay at least 5 per cent extra for products that avoid harming the ozone layer, or that avoid harming animals.

Planning for Social Change 1991-92 is published by the Henley Centre for Forecasting, 2-4 Tudor Street, London EC4Y 0AA. By subscription.

Job losses are worst in south-east, Labour says

By Andrew Adonis

MORE THAN 500,000 jobs have been lost in the past year, with the south-east worst affected and the rate of losses accelerating, according to a Labour party survey published today.

The survey, based on analysis of job losses announced in national and regional newspapers, shows 208,830 losses in the second quarter of this year.

Of those, 23,000 – 37 per cent of the losses wholly attributable to specific regions – were in the south-east. The north (10,000 losses) and Scotland (6,000) were also badly affected, with Wales the only region to record an increase on the previous quarter.

Defence cuts, concentrated in the south-east, were responsible for more than half of all losses between April and June. Manufacturing of metal goods, engineering and vehicles accounted for 13.5 per cent; and transport, telecommunications and energy for 14 per cent.

Mr Henry McLeish, a Labour employment spokesman, said the survey greatly underestimated the true level of job cuts, since it was based only on formal announcements. "In the past 12 months over 1m jobs may have been lost – yet another reminder of the government's economic failure," he said.

The survey supports recent warnings by the Organisation for Economic Co-operation and Development that economic recovery will be slow and uncertain.

The latest OECD forecast warned that growth in Britain would be minimal (0.3 per cent) in the second half of this year, with the economy likely to grow more slowly than that of any other country in the Group of Seven leading industrialised nations in 1992.

Decision on army cuts made today

By John Hunt

FINAL DETAILS of where cuts will be made in the army will be decided today when Mr Tom King, the defence secretary, meets the army board.

A statement is expected in the Commons this week giving details of proposed cuts in all the armed services.

Mr King has already announced that the army will be reduced by 40,000 personnel to a figure of 116,000 over the next three years.

Some Conservative MPs strongly oppose the cuts and are worried that famous regiments may disappear or be merged.

There are fears that Britain will have its smallest land army for more than a century. Mr King said yesterday he felt no guilt about the reductions. "My duty is to make sure I deal fairly across the board," he said.

"I have a responsibility to parliament which votes the money. We are spending £24bn on our defence and I have to make sure the money is properly spent."

Speaking on television yesterday morning, he denied that all the decisions on the defence cuts were being made by civil servants.

He said that if the army were not trimmed to an appropriate size there would be too many regiments. They would then be starved of equipment and would not have decent facilities or accommodation.

Sales fall is easing, retail trade reports

By Alan Pike

WHOLESALE and High Street sales remain weak but with signs that the rate of decline may be slowing, according to the Confederation of British Industry/Financial Times monthly survey of the distributive trades published today.

Mr Nigel Whittaker, chairman of the CBI's distributive trades panel, said that with unemployment still rising sharply "it could well be some time before consumer confidence is restored", in spite of recent interest rate cuts.

Retail sales volumes remained below the level of June, 1990, last month after a sharp decline in volumes in May. A balance of minus 4 per cent of retailers reported that June sales were poorer than a year earlier. That compares with minus 8 per cent in May and minus 7 per cent in January, suggesting a slackening in the rate of decline. By contrast, the June 1990 balance was plus 27 per cent.

The survey, which polled 567 companies in the retail, wholesale and motor trade sectors, shows that retailers expect to see a small pick-up in sales this month but are less optimistic about the extent of any likely improvement than in other recent surveys.

"Since the anticipated growth in volumes reported in recent surveys has not been fulfilled, retailers are now more cautious about any forthcoming improvement," Mr Whittaker said.

Another hint of a slowing in the rate of decline is contained in the survey's results in wholesaling. Although sales volumes are below last year's levels for the ninth successive month, the balance of minus 20 per cent of wholesalers reporting lower sales compares with minus 31 per cent in May and minus 48 per cent in February.

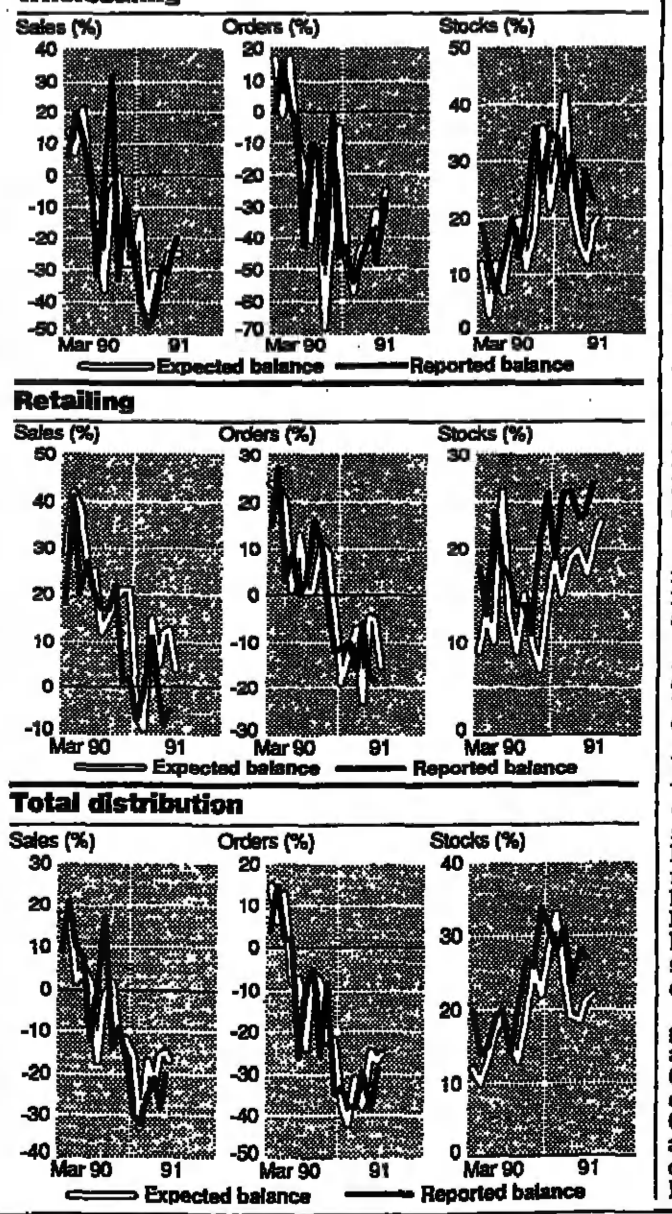
A balance of minus 27 per cent said that sales last month were poor for the time of year, compared with minus 35 per cent in May and minus 51 per cent in February.

Further falls in sales are expected by wholesalers this month, although they believe the rate of decline will remain "less severe" than at the beginning of this year.

Across the distributive trades as a whole, the survey shows that in June distributors placed lower volumes of orders with suppliers than a year earlier. That has been an unchanging picture for 14 successive surveys.

The survey shows a further severe decline in motor trade sales in June, with a balance of minus 82 per cent of traders reporting sales down on a year earlier.

Traders interviewed for the survey expected to see a further decline in sales this month compared with last July, although the survey was conducted before the introduction of discount campaigns by a number of car manufacturers.



Fimbra imposes penalties

FIMBRA, the Financial Intermediaries, Managers, and Brokers Regulatory Association, has ordered two insurance brokers to suspend investment services for three business days each.

The two firms are both single proprietor operations. They are TMG Insurance Agency of Castle Bromwich, Birmingham, owned by Mr Terence Michael Gibson, and Nigel Davis Insurance Services of Wellingborough, owned by Mr Nigel Davis.

Survey finds increasing 'annual hours' deals

By Andrew Adonis

SERVICE-SECTOR companies are beginning to adopt "annual hours" systems, by which working obligations are expressed in an annual and not a weekly total, according to a report published today.

The report, by the Income Data Services research group, cites a number of recent annual hours agreements. Bristol and West building society, for example, now offers staff a choice of contracts ranging from 1,826 hours to 2,526 hours a year.

Staff at Yorkshire Television are obliged to work a basic 1,924 hours a year, with the company able to require them to work a further 150 hours in overtime.

Annual hours systems were increasingly adopted in manufacturing industry in the late 1970s and early 1980s, particularly in continuous-process industries.

Advantages of annual hours systems cited by employers include flexibility (especially for seasonal and shift working), the reduction or elimination of overtime, more stable labour costs and lower absenteeism. Employees mention more leisure time and greater stability of earnings.

The report says: "Annual hours arrangements are often introduced as part of an overall package which includes new payment systems, grading structures and working practices."

IDS Study 486, Income Data Services Ltd, 193 St John Street, London EC1V 4LS.

Stimulus to rail freight is expected today from Rifkind

MR MALCOLM RIFKIND, the transport secretary, will today try to give substance to his recent commitment to get freight off Britain's roads and on to the railways, Richard Tomkins writes.

He is to chair a one-day seminar in London at which he will discuss with 100 delegates from the transport industry how best to overcome the obstacles to making more use of rail for freight.

He is expected to announce further moves to encourage freight on to trains, including details of the cross-Channel freight services planned by British Rail for the opening of the Channel tunnel.

Mr Rifkind's commitment to rail freight was given at a Financial Times transport conference in May, when he referred to four moves which he said would help to take goods off the road.

They were an increase in the so-called "green" grant, which rewards companies for using rail instead of road; the opening up of BR's tracks to private-sector operators; the advent of combined transport which transfers lorry loads to rail wagons for the long-distance part of their journey; and the opening of the Channel tunnel.

Mr Rifkind's initiatives have met criticism from the transport industry, which says the difference they will make to levels of road freight will be so small as to be insignificant.

It is widely accepted in the transport industry that rail is uncompetitive with road for distances of less than 200 miles. Because few freight journeys in Britain exceed that distance, BR's share of the freight market has shrunk to barely 8 per cent.

Mr Rifkind has said that because the Channel tunnel will extend through-rail services from Britain to the Continent, it will take 400,000 lorryloads a year off Britain's roads when it opens in 1993.

The Henley Centre for Forecasting said in a report last week, however, that that would represent less than 0.25 per cent of the road freight market in terms of tonnage lifted.

Many transport operators believe that only a substantial injection of public funds into rail freight terminals, trains and tracks, combined with much higher taxation of road vehicles, will make a significant difference to the balance of traffic between rail and road.

The debate about short-termism rages on. **Alan Clements** suggests that industry and the City should understand each other's point of view and start working together

Why perception and reality do not tally

The argument between industry and the City over short-termism has not gone away. Indeed, the current wave of criticism of the banks for "profiteering" on their loans to companies during a recession and in spite of falling base rates is just another example of the fact that to many in industry and commerce the City has failed to do what is expected of it.

It is unfortunate that there is a mismatch in both perception and reality between the City and the corporate sector over the roles of both the capital and the money markets.

The City, and especially that part of it concerned with the capital market, seems to think that the corporate attack on it is that it is short term in the sense that it misprices shares. It is perceived to do that because at the heart of its operations are two malfunctions.

First, analysts and fund managers emphasise current earnings and dividends rather than future ones, and apply their price/earnings rates to figures which are too low.

Second, fund managers are under short-term pressures because of the way in which they are evaluated on their quarterly performance.

The fact is, however, that the corporate critique of the City is much broader. Business sees the equity market primarily as a source of capital; that is, the place where, in the first instance, companies become widely owned by the public as a result of initial issues of shares for cash, and then later as the place where additional capital is raised as a result of secondary issues. But unfortunately over the years the City and the capital markets have, to an extent, lost sight of this fundamental purpose and no longer see themselves primarily as company developers, finding finance for industry and commerce via the promotion of new stocks.

The City's counter attack is that:

● The stock markets' pricing behaviour is not the cause of the problem; shares are not mispriced. The market does not over-emphasise current earnings and dividends; price/earnings ratios do reflect long-term forecasts and growth prospects. Indeed, company announcements about capital expenditure, research and development and new investments often result in price increases. The markets are not, in fact "short term".

● Management, however, often takes a "short term" stance in the corporate sector. Current businesses are milked, and R&D is neglected because of short-term pressures to increase the dividend, to increase the share price, to respond to fund managers who are evaluated quarterly, and to ward off the takeover threat.

● All this intensifies management's propensity to be short term. This is brought about basically by reward systems, internal measures and capital budgeting, lack of profitable opportunities and erroneous concepts about the cost of capital.

● The solution is not to tinker with systems (the markets, taxation, financing techniques, regulations etc) but for management to "manage as if tomorrow mattered".

Alan Clements: the City and the capital markets have lost sight of their fundamental purpose

What is the reply of business to this? It is a three-part answer.

● Investment and merchant bankers and brokers used to hold the view that the capital market's prime purpose was as a source of capital for industry and commerce. But over the years most of the operators in the market – market makers, brokers, investment bankers and investors – have come to see the market as something else. They seem to view it now pre-eminently as a place in which stocks are purchased for their income return and for capital gain.

What is more, they are concerned less with stocks newly issued by companies than with stocks which have been in existence for a long while, and which will have changed hands many times before. The results are that buyers and sellers who ought to attempt a fundamental evaluation of their commodity – stocks and shares – often do not, and instead think more of the market as a whole, and what it will do next.

It seems that the equity markets have developed in a way which has placed undue emphasis on secondary or trading markets. This is revealed by their pre-occupation with liquidity, and behind that, by the degree of speculation which has been seen as a necessary concomitant of liquidity. These two, it is argued, are vital for the sustenance of efficient capital markets in equity stocks.

The test of an efficient market does not seem to be its ability to provide new finance for industry and commerce, but rather its capacity to oil the wheels of trading in stocks and derivatives from them, such as futures, options and indices.

The result has been a tendency for equity investors to lose interest in the essential characteristic of an equity investment, namely the fact that it is a purchase of a part-ownership of an enterprise.

The reasons behind this loss of interest have often been stated – ownership of companies has become too fragmented (if you are a small shareholder why bother to interfere if over 99 per cent of any benefit is going to accrue to others?), and larger shareholders (the institutions by and large) are more concerned with diversification of their portfolios and performance against an index. The result is dilution of the ownership role, and a distortion of the market's fundamental purpose.

That purpose is the facilitating of long-term investment in the economy via the raising of new finance, and the purchase of a share of ownership in business. Unfortunately, investors have been persuaded that it is only the secondary or trading market which matters, that by studying and understanding it one can become a successful investor.

Instead, the experts have argued, a study of a stock's short-term fluctuations relative to the market plus a feel for what the market will do next, is all that is required. Liquidity is, of course, a vital feature of the market, but those developments have meant that liquidity has become synonymous with volatility and high turnover.

Why does the equity market need so much liquidity to make it efficient? What is wrong with investors concentrating on long-term fundamentals, while speculators who need liquidity fill in the gaps and smooth out fluctuations? Is it perhaps that the efficiency pursued by the market – aided and abetted by liquidity and speculation – is an efficiency of operations measured by volumes, turnover and commissions?

The result is that the capital markets seem either to drown in their own liquidity or to complain because of starvation as a result of drought. Small wonder that the corporate sector asks: what is it all about, especially when after all the activity, and the ups and downs, the big institutions look little different from a year, or two years ago.

● The second point is that this whole process has been made worse by developments which the markets have hailed as innovative life savers such as futures and options on indices, and "portfolio insurance". They have to be regarded as counter-productive because, although they have represented the markets' attempts to make long-term investment in unstable times easier, they have intensified liquidity and volatility, and in the end they have not really worked – witness the stock market crash of October 1987.

More important, they have widened the already sizeable gaps which existed between investors and the companies whose shares they contemplated buying. Why? Because now the investor could, in a large way, buy the market and not individual stocks.

The stock market exists, in the eyes of the corporation, as a mechanism which transmits investors' decisions as to which industries and companies are most likely to prosper, into final values, and thus makes it possible for these favoured "names" to raise new capital and grow. But now, as a result of derivatives and the like, investors commanding huge pools of money can influence the market without exercising this vital judgment. In fact by 1987 a massive amount of money was only "passively managed" – small wonder that disillusionment with the whole system set in.

● The corporate sector is still perplexed that companies can have two values – one the result of the normal interplay between buyers and sellers in the everyday efficient market, and the other the product of a bid. The real point about the difference between the two valuations is that it seems to prove that in the normal course of things the true value of retained earnings is overlooked. The price/earnings multiples which emerge in takeovers are nearer the "truth", if one can use that term in what is, after all, a game played against a background of almost total uncertainty.

Having restated the industrialists' case, what can be done about it? First of all, the City and the corporate sector should stop blaming each other. Once again both are in deep trouble.

Both sides need to see whether they can appreciate each other's point of view, agree that there is something in each side's case, and then sort out how to work together to make the economy viable and vibrant again.

The author is the former finance director of ICI and is chairman of David S Smith (Holdings).

Clean clothes to scale fresh peaks

Chris Tighe meets an entrepreneur making the move from big to small business

Former Coloroll chairman John Ashcroft discovered the downside of high-profile acquisitive management last year when the empire he had constructed collapsed with debts of around £350m.

When the consumer products group, hit by high interest rates and the consumer spending slump, went into receivership last June, Ashcroft, who had resigned several months earlier, was ill with hepatitis and sick of entrepreneurship.

Too jaded even to read a business newspaper, the Wigan miner's son toyed with the idea of topping up his London School of Economics degree with a PhD. But then the siren voice of business proved too much for Ashcroft, variously billed in 1980s profiles as shrewd, analytical, inspired, arrogant and aggressive.

"There's nothing more satisfying than getting hold of a business and making things happen," says Ashcroft, 42, now chairman and managing director of his first 1990s acquisition, the appropriately named Survival Aids. "I knew I would have to get back into business.

Does he miss the thrill and kudos of running a big company? "You go through different phases. You learn to make the best of what you're doing."

Large organisations have their drawbacks too; the danger, he says, is that the chief concentrates too much on administration and external relations, at the expense of contact with the operating companies.

"You used to be able to look into the factory and listen to the machines, see the faces of people and understand if there's a problem."

And you can end up running a very large company with only a very small equity stake; now, he says, he wants to build his own business interests. He will pursue other companies, he says, but his acquisitions will not be welded into one group.

As well as working to boost Survival Aids' annual turnover from £4.5m to £10m-15m within five years, and doing freelance consultancy work, he is looking to buy one or two more companies this year.

But he insists he is in no rush. "I won't look at anything marginal or iffy. I can't afford that risk for my career, my credibility or financially. I came here to re-prove some principles to myself and others."

"Here" is a stone-built cottage in the idyllic Cumbrian village of Morland, near Penrith, where Survival Aids was founded in 1979 by Nick Steven, a former Royal Signals Captain. Ashcroft had long been intrigued by the military and survivalist clothing and equipment sold in the company's shop at Euston Station in London.

Spotting an advertisement for an outdoor clothing company for sale, he responded. Stiff bargaining followed but in January, he and a group of friends, including B & Q vice chairman Jim Hodkinson, acquired a 72 per cent stake for an undisclosed six figure sum.

Survival Aids' attractions were what he saw as its rugged image and ethos, its excellent cash profile and lack of debt, its potential for expansion and the appeal of its products to footloose, mortgage-free empty nesters – "exactly the people who weren't Coloroll customers?".

The company, which has no manufacturing capability, employs 50 people. Its goods, many of which are imported, are sold by mail order, by contract to customers including the Ministry of Defence, and through five retail shops.

Even with Ashcroft's plans to boost the number of shops to between 20 and 30 in five years – four, all financed from internal cash flow, are to open next month – Survival Aids is tiny compared with the former Coloroll Group with its 8,500 employees.

Ashcroft's arrival at Survival Aids was greeted with some apprehension, says sales director Tolla Sutcliffe. But, she says, he has been a breath of fresh air, a perceptive teacher combining charm and toughness with a clear sense of direction.

"He's nothing like the man we had read about." She sounds relieved. "There are no politics here, no claws needing sharpening."

ADVERTISEMENT

Bank of Credit & Commerce International

A Statement by the majority shareholders

The majority shareholders of the BCCI Group were shocked by the abrupt action taken by the Bank of England, the Luxembourg Monetary Institute and other regulators on Friday, 5th July 1991 to freeze the assets of the BCCI Group and close its operating branches. This action was taken without any consultation whatsoever with either the shareholders or with the Central Bank of the United Arab Emirates, a member of the College of Regulators. Since April 1990, the Government of Abu Dhabi and related institutions have held a majority shareholding in the BCCI Group.

As is well known, BCCI has encountered various operating problems in recent years and has sustained substantial losses. In order to deal with these problems the majority shareholders have brought about Board and management changes and have injected substantial amounts of fresh capital into the Group.

In October 1990, as a result of the disclosure of various irregularities, the President and the Chief Executive Officer resigned. At the request of the majority shareholders an internal inquiry into these irregularities was instigated shortly thereafter and is continuing. The majority shareholders believe that they took effective steps in mid 1990 to prevent the occurrence of new irregularities.

The majority shareholders feel that they cannot absolve Price Waterhouse from all responsibility since they have been auditors of a major subsidiary (BCCI Overseas) for fifteen years and auditors of the whole Group since 1987.

Towards the end of 1990 the majority shareholders produced a restructuring plan for the future involving the divestment of all the Group's banking activities, principally by disposal on a going concern basis, with an orderly run-down of any remaining businesses. This plan has been developed and refined during the first six months of 1991. Detailed discussions about it have been held with the Bank of England and other regulators, who were kept informed of developments at every stage.

A key element of the restructuring plan was the formation of three new and separate banks, to be based in London, Abu Dhabi and Hong Kong. Planning for this was at an advanced stage, since it was intended that the new banks should commence operations before 1st January 1992. With the active encouragement of the regulators various senior members of staff had already been recruited. The majority shareholders had been prepared to support the plan with such further injections of capital as would have been required.

Final drafts of individual restructuring plans for the new banks had been sent to the relevant regulators during May and June 1991 and, at the request of the Bank of England and the Luxembourg Monetary Institute, the latest draft of the composite restructuring plan was sent to them on 3rd July, only two days before the closure on 5th July.

The action taken on 5th July has resulted in severe problems (involving financial hardship in many cases) for more than 1.25 million depositors of the Group worldwide and some 12,000 staff are likely to lose their jobs. It has resulted in the destruction, at a stroke, of what the majority shareholders believe was a well structured and viable future plan. If the restructuring plan had been allowed to proceed the majority shareholders have no doubt that no depositors' money would have been lost.

In view of all the above, the majority shareholders deplore what they consider to be the unjustified action taken by the Bank of England, the Luxembourg Monetary Institute and other regulators on 5th July 1991.

The majority shareholders of the BCCI Group comprise: the Government of Abu Dhabi, the Abu Dhabi Investment Authority and the Department of Private Affairs of H.H. Shaikh Zayed bin Sultan al-Nahyan.

16 July 1991

THE WEEK AHEAD

ECONOMICS

Looking for the clues that indicate pattern of recovery

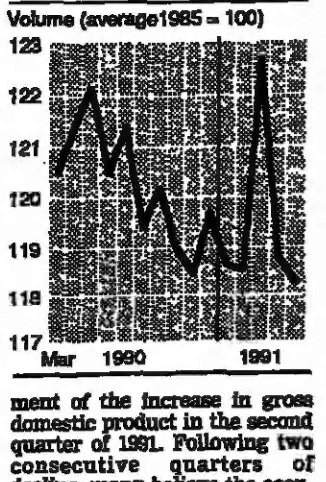
ECONOMISTS will turn their attention this week to new clues as to the likely pattern of recovery for the US and UK economies.

Data during the week on recent changes in UK retail sales, and in total output growth in the US, will guide policy makers on the degree to which recent cuts in interest rates in both countries have boosted economic activity.

In Britain, retail sales volumes in recent months have been highly volatile, due to the boost provided by the Budget to shopping activity in March. Due to VAT increases announced in the Budget, consumers rushed to buy high-priced goods in the high streets before the tax changes took effect.

UK retail sales

Volume (average1985 = 100)



However, sales growth after March has been disappointingly low for many retailers, underlining suggestions that the rise in consumer confidence after the end of the Gulf war was a temporary affair.

Many onlookers believe that consumer spending will not take off in the UK in any sustained way until late in the year, delaying the onset of the upturn from the year-long recession. The best estimate of MMS, the financial information company, is that retail sales volumes last month, which are being announced today, were flat compared with May, with the figures showing a year-on-year decline of around 1.9 per cent.

In the US, interest will be centred on Friday's announcement of the increase in gross domestic product in the second quarter of 1991. Following two consecutive quarters of decline, many believe the economy will have shown a modest increase in this period, lending weight to recent evidence that more vigorous growth can be expected later in 1991 and in 1992.

Key key events and financial data during the week are as follows. Median market projections, as provided by MMS, are in brackets.

Today: US, June Treasury budget ($3bn deficit); UK, June FT/CBI distributive trades survey; visible trade deficit for June (£900m), June current account deficit (£500m), retail sales for June (flat month-on-month, down 1.9 per cent on the year); Australia, May housing finance (up 2.3 per cent) and export price index; Canada, May retail sales.

Tomorrow: France, June trade deficit (FFr2.5bn); Japan, July 1-10 trade figures; Canada, May wholesale trade.

Wednesday: US, June durable goods orders (up 1 per cent on month), durable shipments, July 11-20 car sales (6.9m); UK, June building society commitments (£3.9bn), British Chambers of Commerce Quarterly Economic Survey.

Thursday: UK *parliament* begins recess (ends October 14); US, June home sales, export and import price indices for June and for second quarter, money supply figures for week ending July 15 (M1,$1.83bn; M2,$2bn; M3,$3.1bn), initial claims for week ending July 13; Canada, foreign bond holdings announcement.

Friday: US, 2nd quarter GNP (up 0.9 per cent on annualised basis) and GNP deflator (up 3.4 per cent), June bank credit, June commercial and industrial loans and bank credit; Japan, July consumer price indices for whole nation (3.7 per cent on year) and Tokyo (3.3 per cent), June retail sales (up 5.5 per cent on year), June industrial production (down 2 per cent on month); Australia, May manufacturing input price index; Canada, June industrial product and raw material price indices.

Expected during the week are figures from France on the June unemployment rate (9.6 per cent) and Germany on cost of living increase in July (up 0.8 per cent on the month).

Peter Marsh

RESULTS DUE

THE STAR turn among this week's reporting companies will be Imperial Chemical Industries. Buffeted by the recession and harassed by Hanson, the acquisitive conglomerate sitting on a 2.8 per cent stake, ICI will on Thursday produce a dismal set of half-year figures and probably some details on its restructuring.

Its profits for the six months ended June are likely to be no more than £450m against £783m a year earlier. Sir Denys Henderson, chairman, will probably argue this is a creditable performance for a chemical company in a recession.

Restructuring plans, whether released in full or piecemeal in coming months, will entail large job losses and the shedding of some businesses. But in many ways the biggest news will be Hanson's reaction to ICI's results.

Lloyds Bank becomes the first of the "Big Four" to announce its 1991 interim results on Friday. Last year pre-tax profits in the first half were £408.2m. This year City stockbroker analysts expect profits to be well down, but there is disagreement about how badly it has fared in the recession. Forecasts vary between £150m (from Carr Kitcat & Aitken) and £300m (Shearson Lehman). The pessimists believe that, apart from continuing problems in the UK, Lloyds will also be hit by arrears on its lending to Brazil.

Lloyds Abbey Life, the insurance group purchased by Lloyds in 1988, will continue to contribute the lion's share of the group's profits, while UK retail banking may still be in the red, though some activities – such as credit card operations – will have returned to profit.

UK COMPANIES

■ **TODAY**
COMPANY MEETINGS:
Erskine House, Oak Hill Road, Sevenoaks, 12.00
F & C Smaller Co's., Exchange House, Primrose Street, E.C., 12.15
Fleming Universal Inv. Trust, 25, Copthall Avenue, E.C., 12.00
High Gosforth Park, Brandling House, High Gosforth Park, Newcastle upon Tyne, 12.00
BOARD MEETINGS:
Finals:
Bespak
Dudley Jenkins
Independent Inv.
Interims:
Berkeley Govett
Denmans Electrical
Eldridge Pope

■ **TOMORROW**
Amber Industrial, Cayzer House, 1, Thomas More Street, E., 12.30
Caffyns, Hydro Hotel, Mount Road, Eastbourne, 3.00
Casket, Holiday Inn, Wellington Street, Leeds, 10.30
City of London PR, Honourable Artillery Co., Armoury House, City Road, E.C., 11.30
Cohen (A), Clareville House, 25-27, Oxendon Street, S.W., 12.00
Investment Co., Fairfax House, Fulwood Place, Gray's Inn, W.C., 12.00
Monks Inv. Trust, Brettenham House, 6, Lancaster Place, W.C., 10.30
Whitbread, Guildhall, E.C., 12.00
BOARD MEETINGS:
Finals:
AIM
Assoc. British Consultants
Cupid
Southend Property
Tinsley (Eliza)
Interims:
ML Labs.
P & P
Reuters
Temple Bar Inv. Trust
Throgmorton USM Trust

■ **WEDNESDAY JULY 24**
Ball (A.H.), 100, Wood Street, E.C., 10.00
Caledonia Invs., Cayzer House, 1, Thomas More Street, E., 2.30
Craig & Rose, 172, Leith Walk, Edinburgh, 10.30
Davies & Newman, Gatwick Hilton Hotel, Gatwick Airport, 10.30
De La Rue, Le Meridien Hotel,, Piccadilly, W., 12.00
Dunhill, Cafe Royal, 68, Regent Street, W., 12.00
Fleming Euro. Fledgeling *Inv. Trust, 25, Copthall* Avenue, E.C., 12.00
New Throgmorton Trust, 155, Bishopsgate, E.C., 12.00
Northumbrian Fine Foods, Dukesway, Team Valley, Gateshead, Tyne & Wear, 10.30
Nu-Swift, Grosvenor House Hotel, Park Lane, W., 12.00
Regalian Props., *Chesterfield Hotel, 35,* Charles Street, W., 10.30
Reject Shop, 20, Farringdon Road, E.C., 12.00
600 Group, Runnymede Hotel, Windsor Road, Egham, 11.30
Staveley Inds., Hilton Hotel, 22, Park Lane, W., 12.00
Tex Hldgs., 21, New Street, Bishopsgate, E.C., 12.00
Unigate, Intercontinental Hotel, Hyde Park, W., 12.00
BOARD MEETINGS:
Finals:
Jacques Vert
Radius
Interims:
Capita
Holders Technology
LASMO
LWT
Lloyds Abbey Life
Mirror Group Newspapers
St. Andrew Trust
Union Discount

■ **THURSDAY JULY 25**
BSS, Grand Hotel, Leicester, 12.00
Babcock Intl., Howard Hotel, Temple Place, Strand, W.C., *12.00*
Boots, Queen Elizabeth II Conference Centre, Broad Sanctuary, S.W., 10.00
EMAP, Haycock Hotel, Wansford-in-England, Peterborough, 12.00
Elswick, Painters' Hall, 9, Little Trinity Lane, E.C., 10.30
Hardy Oil & Gas, Plaisterers' Hall, 1, London *Wall, E.C., 11.00*
Jarvis Porter, Holiday Inn, Wellington Street, Leeds, 12.00
Locker (Thomas), Lord Daresbury Hotel, Daresbury, Warrington, 12.00
Melville Street Invs., Dunedin House, 25, Ravelston Terrace, Edinburgh, 12.00
NSM, 25, Copthall Avenue, *E.C., 12.00*
Penny & Giles, Pewterers' Hall, Oat Lane, E.C., 12.00
Powerscreen Intl., Ironmongers' Hall, Shaftesbury Palce, Barbican, E.C, 11.30
Ralston Inv. Trust, Merchant Taylors' Hall, 30, Threadneedle Street, E.C., *12.30*
Renold, Hotel Piccadilly, Piccadilly Plaza, Manchester, 2.30
Rolfe & Nolan Computer Services, Chartered Accountants' Hall, Moorgate Place, E.C., 12.00
Scapa, Moat House Hotel, Yew Tree Drive, Blackburn, 12.00
Shanks & McEwan, Forte Crest, Glasgow, 12.00
TR Property Inv. Trust, 2, Puddle Dock, E.C., 12.30
BOARD MEETINGS:
Finals:
Douglas (Robert M)
Misys
Mitie
Platignum
Smith (David S)
Sutherland Hldgs.
Interims:
Derby Trust
Green Property
Hill & Smith
Owners Abroad
Yeoman Inv. Trust

■ **FRIDAY JULY 26**
Allen, Portland Thistle Hotel, Portland Street, Manchester, 12.00
Blacks Leisure, Howard *Hotel, Temple Place,* Strand, W.C., 11.00
Chamberlin & Hill, Chuckery Foundry, Walsall, 12.00
Compco, 33, Cork Street, W., 12.00
Electrocomponents, 21, Knightsbridge, S.W., 12.00
Finlay (James), Glasgow Royal Concert Hall, 2, Sauchiehall Street, Glasgow, 12.00
Guidehouse, Durrant House, 8-13, Chiswell Street, E.C., 11.00
Harrison Inds., Post House Hotel, Palatine Road, Northenden, Manchester, 10.30
London & Metropolitan, 20, Fenchurch Street, E.C., 11.00
Northern Foods, Grange Park Hotel, Willerby, Hull, 12.30
Portsmouth & Sunderland Newspapers, New Centre, Hilsea, Portsmouth, 12.30
Rothmans Intl., Inn on the Park, Hamilton Place, Park Lane, W., 12.00
Wellman, Grand Hotel, Colmore Row, Birmingham, 11.00
Worthington (A.J.), 26, Upper Brook Street, W., 11.00
BOARD MEETINGS:
Finals:
Forminster
Lazard Select Inv. Trust
Lavercrest
Interims:
Greenfriar Inv.
Hepworth
Lex Service
Sleepy Kids

Company meetings are annual general meetings unless otherwise stated.

DIVIDEND & INTEREST PAYMENTS

■ **TODAY**
Acatos & Hutcheson 1.75p
Airflow Streamlines 2p
Britannia Bldg. Soc. Fltg. Rate Sub. Nts. 2005 £31112.45
British Inv. Tst. 13p
Butler Cox 1.75p
Enterprise Computer 1.5p
Exchequer 12pc 1999/2002 6pc
High Gosforth Park 15p
Hill Samuel Fltg. Rate Nts. 2016 $399.06
Martin Currie Euro. Inv. 1.1p
Sweden (Kingdom of) *13.5pc Ln 2010 (Reg)* $6\frac{3}{4}$pc
Texas Instruments 18cts
Treasury $12\frac{3}{4}$pc Ln $6\frac{7}{8}$pc
Treasury 14pc 1996 7pc
Treasury $13\frac{1}{4}$pc Ln 1997 $6\frac{5}{8}$pc
Treasury $11\frac{3}{4}$pc 2003/07 $5\frac{7}{8}$pc
Tunstall 2.15p
Yorkshire Water 11.8p

■ **TOMORROW**
Caffyns 6.5p
F & C Smaller Co's 1.05p
Linton Park 10.5p
London & Clydeside 1.8p
Tate & Lyle 3.7p
Trafalgar House 8.8p
Woolwich Bldg. Soc. Fltg. Rate Nts. 1995 £148.81

■ **WEDNESDAY JULY 24**
Britannia Bldg. Soc. Fltg. Rate Nts. 1996 £298.55
City of London PR 2.05p
Co-operative Bank Fltg. Rate Nts. 2000 £149.59
Faber Prest 4.3p
Fairline Boats 7.15p
Fleming Universal Inv. 2.2p
Hydro-Quebec Fltg. Rate Nts. Ser. FY July 2002 $326.51
Osborne & Little 2.35p

■ **THURSDAY JULY 25**
Atkins Bros (Hosiery) 6p
BSS 11.5p
Bank of Montreal Fltg. Rate Debs. Ser. 10 1998 $367.03
Bank of Scotland 3.1p
Body Shop 0.7p
CPC 55cts
Debenhams $7\frac{1}{4}$pc Ln 2002/07 $3\frac{5}{8}$pc
Do. $7\frac{3}{4}$pc Ln 2002/07 $3\frac{7}{8}$pc
Dunhill 4.4p
Finlay (James) 2.15p
Fleming European Fledgling Inv. Tst. 0.25p
General Electric Co. 51cts
Manuf. Hanover 47cts
New Throgmorton Tst. 6p
Northern Investors 4.5p
Panama (Rep. of) Fltg. Rate Ser. Nts. $31.68
Rolfe & Nolan Comp. 3.5p
TSB Gilt Fd. Prf. Class B 0.8916p
Treasury 12pc 1995 6pc
Treasury $13\frac{3}{4}$pc 2000/03 $6\frac{7}{8}$pc

■ **FRIDAY JULY 26**
Allied-Lyons 12.54p
Bilton (Percy) 12.04p
Do. Acc. 0.1p
Blenheim 7p
British Airways 6.05p
Cambridge Water 20p
Chamberlin & Hill 4p
Chartwell 0.75p
Cheam A 4p
Do. B 4p
Chiltern Radio 1p
Clayhithe 4.2p
Compass 3.85p
Eastern Transvaal Cons 7cts
Hartebeestfontein Gold 50cts
Hi-Tec Sports 3.5p
IWP Ir3.5p
Johnson & Firth Brown 1p
Locker (James) 1.1p
Do. A 1.1p
London Scottish Bank 0.875p
Macdonald Martin Dist. A 8p
Do B 3p
Pall 11cts
Powerscreen 3.95p
Sidlaw 3.3p
Time Products 4.6p
Treasury $7\frac{3}{4}$pc Ln 2012/15 $3\frac{7}{8}$pc
Waddington (John) 4.3p
Wardell Roberts Ir1.938p
Whitbread Inv. 9.95p
Whitbread 12p
Do. B 12p
Zandpan Gold 8.25cts

■ **SATURDAY JULY 27**
Allen 3.3p

■ **SUNDAY JULY 28**
Australia (Commonwealth of) $13\frac{1}{2}$pc Ln. 2010 $7\frac{1}{4}$pc
Treasury $8\frac{1}{2}$pc Ln 2001 $4\frac{1}{4}$pc

PARLIAMENTARY DIARY

■ **TODAY**
Commons: Motion for the summer *adjournment. Debates on the* Consolidated Fund Bill.
Lords: Mental Health (Detention) Scotland Bill, third reading.
Child Support Bill, Consideration of Commons amendments.
British Technology Group Bill, report.
School Teachers' Pay and Conditions (No. 2) Bill, third reading.

■ **TOMORROW**
Commons: Lords amendments to the Ports Bill. Proceedings on consolidation measures.
Lords: Criminal Justice Bill, *Commons reasons.*
Local Government Finance and Valuation Bill, third reading.
Dangerous Dogs Bill, Third Reading.
Christian Togetherment on Implementation of the Woolf and *Tumim report on Prison* Disturbances.
Select committees: Treasury and civil service – subject, banking supervision and BCCI. Witness: Robin Leigh-Pemberton, Bank of England governor (Room 8, 4.15pm).
European legislation – subject, *Netherlands presidency priorities.*
Witness: Tristan Garel-Jones, MP, Foreign Office minister (Room 15, 4.30pm).
Committee on opposed private bill: London Docklands Railway (Lewisham, etc) (Room 6, *10.0am*).

■ **WEDNESDAY**
Commons: Opposition debate *on the "failure of the government's economic policies".*
Consideration of Lords' amendments to the Dangerous Dogs Bill.
Lords: Armed Forces Bill, committee.
British Railways Board (Finance) Bill, second reading.
Motion to amend the Income Support (General) Regulations.
Reading of Dogs Bill, committee.
Select committee: *Defence – subject, options for change: the* army. **Witnesses:** *Ministry of* Defence officials (Room 15, *10.50am).*
Committee on opposed private bill: London Docklands Railway (Lewisham, etc) (Room 6, 10.0am).

■ **THURSDAY**
Commons: Adjournment debates.
Lords: Motion on the Education (Assisted Places) Regulations.
Question to government on the United Nations Security Council resolutions relating to Israel's occupation of the West Bank and other territories.

Both Houses will adjourn for the summer recess until October 14.

LEGAL NOTICES

MAINSPRING MERCHANDISING '91 LIMITED

Registered No: 2300440
Trading name: MAINSPRING MERCHANDISING '91 LIMITED
Trade classification: 37
Name and address of joint administrative receivers: David John Stokes and Anthony James Wood
Cork Gully
1 East Parade
Sheffield S1 2ET. (Office holder numbers 2882 and 2883)
Date of appointment: 12 July 1991
Name of appointor: Lloyds Bank plc

TECHNICAL STUDIOS LIMITED

Registered No: 546022
Trading name: Technical Studios Limited
Trade classification: 37
Name and address of joint administrative receivers: David John Stokes and Anthony James Wood
Cork Gully
1 East Parade
Sheffield SE1 2ET. (Office holder numbers 2882 and 2883)
Date of appointment: 12 July 1991
Name of appointor: Lloyds Bank plc

CONSTRUCTION CONTRACTS

Centre West scheme

Bredero Properties has awarded the cladding contract for its £135m Centre West development in Hammersmith to SCHOKBETON, part of the Partek Group.

The scheme includes a major transport interchange, shopping facilities and headquarter office buildings.

The £13.7m contract for the procurement of stone faced precast concrete cladding panels and window walling is to run in parallel with the £13.6m main frame contract which was awarded to R. O'Rourke & Son and commenced in June.

During the 20 month contract Schokbeton will manufacture and erect some 3,500 cladding panels and install 7,000 sq metres of window walling.

The external facade of Centre West is to be clad with natural French limestones and Brazilian and Swedish granites.

Brighton hotel expansion

LOVELL CONSTRUCTION has been awarded a £5m contract by De Vere Hotels for an extension and other improvements to the Grand Hotel, Brighton.

Working to a programme with phased completions, Lovell is to build and fit-out an eight-storey (plus basement) extension totalling some 3,500 sq metres. A fully equipped ballroom/high-technology function suite will be created at ground level with basement kitchens and associated food storage and preparation rooms.

A small suite of offices will occupy the first floor, above which will be 39 luxury bedrooms on six floors.

The ballroom and basement are to be of steel-frame construction on piled foundations, with the remainder of the structure in reinforced concrete.

In addition Lovell is to form a new entrance and crush hall, using high-quality finishes; strengthen floors; generally refurbish the existing fabric; carry out alterations to staircases, lifts and plant rooms; and build a toilet block on the mezzanine floor. Work is due for completion in July 1992.

£10m museum in Halifax

A.F. BUDGE (BUILDING), part of the AF Budge Group and based in Leeds, has been awarded a major design and build contract for Eureka!, a new children's museum in Halifax.

Due for completion in spring 1992, and with an overall contract value of £10m, Eureka! is understood to be the first informal learning centre in the UK specially designed for children under 12, combining education with leisure.

The project is funded by Eureka! The Children's Museum, a registered charity backed by the Clore and Vivien Duffield Foundations.

£5.6m design experiment

Housing improvements and hospital work valued at £7m have been won by LAING NORTH WEST.

Manchester City Council has selected the company to carry out its design improvement controlled experiment (DICE) project at Bennett Street in Gorton. The £5.6m contract includes alterations to entrances and kitchens of houses, maisonettes and flats, new pitched roofs on seven blocks and demolition of link walkways.

Twelve homes are to be constructed as part of the scheme and two tower blocks will have new lifts installed.

Whitehall refurbishment

A major contract of around £7m managed by PSA Building Management (London) has been awarded to COSTAIN CONSTRUCTION for extensive restoration work to be carried out at Horse Guards in Whitehall.

BM London completed the design and tender stages recently. Work has started on both internal and external restoration.

The external work will include refurbishment of stonework, brickwork and windows. Roof coverings and gutterings will be renewed.

All unnecessary additions to the original structure will be removed and the appearance of the remaining additions improved.

Internally the work will consist of restoring and rationalising accommodation.

Sports arena

CROWN HOUSE ENGINEERING has been awarded a £10.2m design and construct contract for services at the new national indoor arena for sport, being built in Birmingham by Laing Midland for Birmingham City Council.

The main arena will be provided with air through duct work threaded through the roof structure and supplied via motorised variable diffusers, controlled by a monitoring and computer-linked building management system.

Roadbuilding

RENDEL PALMER & TRITTON is assisting the Welsh Office with the development and design of a £10m widening scheme on the A550 trunk road between Deeside Park and Drome Corner in Clwyd, North Wales. The scheme involves widening about two kilometres to dual three lanes with full hard shoulders, widening of an existing railway bridge and the construction of three new bridges carrying the road.

Welsh plant

SEVERFIELD-REEVE has been awarded £4.5m in new orders. The largest is a £2m contract from Pearce Construction for a factory, office block, amenities building and energy block for Sony's new television production plant at Bridgend in South Wales. The development will cover 665,000 sq ft and will require 2,800 tonnes of steel.

Bridge project

BRIDON ROPES has obtained a substantial order for pre-stressing strand for the Storebaelt western bridge in Denmark. The 6km long western bridge will incorporate some 3,750 tonnes of Bridon 15.7mm "Super" and 15.2mm "Dyform" pre-stressing strand with a total value of £2m. The order was awarded by VSL Storebaelt of Berne, Switzerland under subcontract to the Storebaelt Group.

ARTS

First Night of the Proms

ROYAL ALBERT HALL, BBC2 & RADIO 3

The season of Henry Wood Promenade Concerts that opened on Friday does not have the consistent flavour of several others planned by John Drummond, but it offers a solid unhackneyed survey, with a generous sprinkling of innovations and special events.

More significantly, before the first concert it was announced that Drummond will become director of the Proms when his contract as the BBC's controller, Radio 3, and controller, music, comes to an end next May.

Hiving off the most prestigious part of the BBC's music output in such a way may make artistic sense in the short term – Drummond has handled the Proms with flair and good taste, carefully balancing glamour with seriousness and enterprise, while he no longer wishes to carry the burden of administration within [illegible] music department. But such a radical change of policy has implications for the future funding and possible privatisation of the series (and by extension for the whole of the BBC's policy towards its orchestras and public concerts) that will need the most careful scrutiny. One trusts the future of the Proms and the BBC's part in it under Drummond's care but not necessarily under those [illegible] an unknown successor.

To start the new season Andrew Davis conducted *The Dream of Gerontius*. It was a very British occasion in many ways, with the BBC Symphony Orchestra and the combined forces of the BBC Singers, BBC Symphony Chorus and London Philharmonic Choir, and attended by HRH The Prince of Wales; those who find the oratorio's blend of Roman Catholicism and English sanctimoniousness too much to stomach might well have recoiled at such a prospect. But some of the doubters could have been converted by the performance, with a throughly international team of [illegible] – [illegible] land tenor, Jamaican bass, American mezzo – and an approach by Davis that seemed to purge the score of many of its more insular properties, bringing it closer to *Parsifal*, some of us would like to think, than to Stainer's *Crucifixion*.

Davis unfolded the scheme with steady, unaffected perception and a sure sense of shape and dramatic purpose. He did not treat any aspects too preciously (indeed there was an earthbound lack of rapture about some of the choral passages) and resisted the temptation to sensationalise some of the hand-me-down operatic moments; even the Demons Chorus was less embarrassing than often it can be.

The orchestral playing may have been efficient rather than inspired, but the soloists were rather special. Keith Lewis's Gerontius was quite without pious sentiment, yet beautifully phrased, intelligent and profoundly human, very much in the tradition of his namesake Richard Lewis in the role rather than any of his etiolated successors. Florence Quivar made a wonderfully warm and touching angel, savouring each phrase, always poised and eloquent, while Willard [illegible] a direct, uncomplicated priest [illegible] implacable Angel [illegible] the Agony, delivering [illegible] phrases with a ringing authority that provided the evening's [illegible] cherishable [illegible].

Andrew Clements

Idomeneo

GLYNDEBOURNE

As a permanent memento of the Mozart bicentenary year, Glyndebourne has commissioned a half dozen wind serenades. Six composers have each been allocated a Mozart opera from this year's programme on which to base their pieces and the music is being played half an hour before curtain-up, either on the terrace or in the organ room, depending on the weather.

Saturday's serenade managed an *al fresco* performance in somewhat windy conditions. Robert Saxton had drawn *Idomeneo* as his opera and produced a lively diversion (or "Paraphrase") of about 12 minutes in length. The whole point of linking the serenades to a specific opera is that it imposes a discipline upon the composer and Saxton's interpretation of the rules proved to be original.

He does not quote any of Mozart's music. Instead, he has taken the plot of *Idomeneo* for his structure and given his wind octet the characters of the story. There is a dignified cor anglais (Idomeneo), a pathetic oboe (Ilia) and a clarinet of spiteful fury (Elettra); the storm and the episode of the sea monster are represented by agitated ensembles. I doubt if anybody could follow the drift without an exact synopsis, as in Strauss's tone poems, but the music is well paced and full of personality.

Saxton's serenade views *Idomeneo* through 20th-century eyes and something of its assertive modern style could also be felt in the performance of the opera which followed. The conductor Graeme Jenkins likes a boldly dramatic impetus in Mozart, which is all to the good. But, as the evening progressed, the reservation increasingly grew that energy for its own sake cannot do duty for deeper musical understanding.

The reason for returning to this revival late in its run was to sample a couple of important changes to the cast. One was the new Ilia of Elzbieta Szmytka. This Polish soprano has a bright and sharp-edged voice with a surprising amount of force behind it and she made much of Ilia's dramatic intervention in the scene of the sacrifice. Softer tones have to be worked for, but her last aria was meltingly delivered.

The other was the authoritative Elettra of Carol Vaness, already known to Glyndebourne audiences, but no less exciting for that. There is never more than a handful of singers at any one time who can combine the beauty of voice and the ferocious display of [illegible] in full operatic fury that is Mozart's Elettra. Vaness is the best that there is today and her last aria brought the house down.

Even while one looked back at previous casts in Glyndebourne's Mozart history, this felt a good evening. Keith Lewis was singing at his best as Idomeneo; John LaPierre put much feeling into his tenor Idamante, even if the quality of voice production was uneven. The Glyndebourne Wind Serenades will be recorded and issued together on a single disc, which should prove a fascinating exercise in the art of musical [illegible].

Richard Fairman

Composers' Ensemble

CHELTENHAM FESTIVAL

The very sound of the clarinettist Alan Hacker playing works by Maxwell Davies, Birtwistle and Goehr at a Cheltenham Festival recital must have stirred the memories of many old hands. In the late 1960s, in the wake of the "Cheltenham symphony" but before new music began to find many more outlets, the festival was at the leading edge of new music in this country with a regular diet of important premieres, and the Pierrot Players (later to be reincarnated as the Fires of London) made one of their earliest appearances at Cheltenham in 1967, playing Maxwell Davies and Birtwistle alongside Schubert and Webern.

That concert included Hacker's astounding first performance of Davies's *Hymnos*; on Saturday in the Pittville Pump Room he played a later, less substantial piece of Davies, *The Seven Brightnesses* from 1975, [illegible] still commanded the same electrifying range and nervy intensity. In both Birtwistle's revealingly spare *Linoi*, inching its way through a melodic shape in an almost primeval way, and Goehr's 1968 paraphrase of Monteverdi's *Il combattimento di Tancredi e Clorinda*, every section instantly characterised, Hacker was compelling; each note was individually shaped and made to matter.

He appeared in Cheltenham this time with the Composers' Ensemble, the group organised by John Woolrich and Mary Wiegold, which over the last two years has compiled a Songbook (with nearly 50 items to date) for voice and five instruments from a wide [illegible] of contemporary composers. In a neatly planned and splendidly presented programme, some songs were revived from the group's first London concerts – Judith Weir's witty little Spanish narrative *The Romance of Count Arnaldos*, Dominic Muldowney's Eisler-ian *On suicide*, Woolrich's own delightful *The Turkish Mouse*.

Among the new additions, Michael Finnissy had made a plainchant-inflected version of the hymn *O quam glorifica luce*, underpinned by viola drones. Elena Firsova's *Rakovina* by Mandelstam was characteristically over-ambitious in its instrumental writing and vocal demands, yet managed to achieve the kind of brooding intensity her recent instrumental works have just missed.

Her husband Dmitry Smirnov's *Silent silent Night* was yet another of his Blake derived pieces, a simple enough piece of word setting in English, woven about with highly wrought [illegible] string lines.

Andrew Clements

Jean Vilar in Corneille's 'Cinna', 1956

Jean Vilar

AVIGNON FESTIVAL

It is 20 years since the death of the actor and director Jean Vilar, founding father of the Avignon Festival. The occasion is being marked at this year's festival by a number of exhibitions devoted to his career. The main one in the Maison Jean Vilar contains a fine display of programmes, costumes, notices, and correspondence relating to all Vilar's major productions. It is complemented by an illustrated book *Jean Vilar par lui-même* which contains all this fascinating memorabilia arranged chronologically.

When the poet René Char and other local figures in Avignon suggested to Vilar in 1947 that he should do one performance of *Murder in the Cathedral* in the courtyard of the papal palace, they triggered an event that still flourishes today. As it happened Vilar refused to put on Eliot at Avignon, but he told them that he would be interested to do a production of Shakespeare's *Richard II*. This was the start of what became an [illegible] summer festival of drama with a fondness of doing Shakespeare in French. It was also the beginning of a new attitude to theatrical presentation that was to spread across Europe in the immediate post-war years.

The basics of that attitude were stated by Vilar the following year in "Why I have put on Danton's Death". Apart from its inherent dramatic merits, Vilar said that its style made it especially suitable for the bare open-air stage at Avignon "without decor, without curtains, without proscenium". It relied wholly on the vitality of the performance.

Vilar had learnt his craft from the innovate director Charles Dullin at the Théâtre de l'Atelier in [illegible] before the war. The young Vilar had brusquely departed from his [illegible] family in Septe to [illegible] fortune as an actor in [illegible]. In 1937 Vilar had two small parts in Dullin's production of *Julius Caesar*. He was called up into the army in 1939 but invalided out after an operation for a stomach ulcer. As an actor he had by now become dissatisfied with the elitist boulevardism that for him typified the Parisian theatre. In reaction he formed his own small company: *Les Comédiens de la Roulotte*. It toured the regions in a caravan putting on works by Molière, De Musset, J. M. Synge. This experience of bringing unfamiliar works to a local audience in a simply produced style with great emphasis on direct communication was a fine preparation for the years at Avignon.

The exhibition recalls those years with the help of many of the original costumes designed by Leon Gischia for such productions as Kleist's *Prince of Homburg*, Molière's *The Miser*, Corneille's *Le Cid*, which introduced Gérard Philippe to Avignon. The exhibition is equally divided between Vilar's work as a director and as an actor. It recalls him giving memorable performances in *Cinna* and *Don Juan*. In 1951 to Vilar's administrative workload was added the great responsibility of running the Theatre National Populaire in Paris at the Palais de Chaillot.

As Vilar makes clear, the establishment of a popular theatre in Paris predated him by many years. It came about thanks to an initiative in [illegible] by Aristide Briant and others and it was voted into being by the Chambre des Députés. Under Vilar in the 1950s, the concept took off with an adventurous policy of extending the repertory through productions of foreign classics as well as French ones. By *popular* he meant open to all.

That this tradition of vigorous popular presentation still survives is attested by many major productions by directors such as Vitez, Peter Brook, Lavelli and others that have taken place in Avignon since Vilar's death in 1970.

Anthony Curtis

Royal Ballet School

COVENT GARDEN

It was something of a shock on Saturday afternoon to find Balanchine the best served of the choreographers in the Royal Ballet School's annual Covent Garden matinee. His *Valse Fantaisie* – abstracted from the longer *Glinkiana* of 1967 – is ravishing in its simplicity: a central couple and four attendant girls skim and flash over the stage in clear, open patterns buoyed up on the waltz's lilt. It is choreography requiring speed, attack, lightness (not always Royal [illegible] virtues) and its cast, led by [illegible]ane Burn and Christopher Wheeldon, did it proud. Good dances make dancers [illegible] good, and Miss Burn [illegible] shown as a bright, easy performer, and Mr [illegible] as a mercurial classicist.

The potential of their contemporaries was far from obvious in the preceding sub-Balan[illegible] especially [illegible] for [illegible] by David Bintley. This realisation of Mozart's *Les Petits Riens* lived up to its title in offering academic nothings that could have been the work of Balanchine's dentist rather than of an established creator. The young performers were trapped in banal activities that resembled caricatures of Mr B's Mozartian masterpieces, and there was a confused, unfocussed look to the dancing, though the work of Justin Meissner held the eye by its fluency [illegible] promise of good things to come. The boys were cursed with doublets designed for Quasimodo; the girls wore bodices emblazoned with double-headed eagles – relics of the Royal Ballet's disastrous revival of *Ballet Imperial* – and four tiny and winsome girls, who were momentarily involved, ought to have been in bed hours before. The piece should not have been shown.

[illegible] pupils of the Lower School be[illegible] the afternoon with their customary display of folk-dancing – Jamie Thom[illegible] nipping fleet-footed through a treble [illegible] – done with great aplomb. This year's Upper School students were introduced to us in *Les Sylphides*, which was made by Fokine for his Petersburg students. The passage of the century, though, has made it stylistically too difficult for the young. The Royal Ballet's aspirants mope dutifully, as if attending a memorial service – lightness, the airy, deaming qualities implicit in the title replaced by lethargy. The pink lighting and the Opera House orchestra's ability to bleach the music of all poetry were additional encumbrances.

About the closing *Elite Syncopations* it needs but to be said that the young performers enjoyed themselves hugely – David Dawson [illegible] alert [illegible]nent of the Friday Night rag – and found a winning brightness of style for MacMillan's jokes and ingenuities. They worked hard and well; they had fun. [illegible]

Clement Crisp

B. B. King/Kraftwerk

FESTIVAL HALL/ACADEMY

There are many claimants to be King of the Blues, including Albert King, Freddie King, and Earl King, but no one really disputes that the title belongs [illegible] King, [illegible] 65-year-old giant whose good time urban [illegible] were somehow included in last week's Capital Radio Jazz Festival.

He has become a classic, [illegible] presumably justified his [illegible] Hall, although it is not the best venue for his reach-out-and-touch music, especially if you [illegible] behind the [illegible]. This provides [illegible] view of the keyboard player's fingers but ensures that the sound is as muddy and flat as the Nile delta.

First on stage was a very well fed looking band which went through a long warm up act, a sure sign that the OAP star was not going to detain us long. Then B. B, initials he acquired in the 1940's when he was "the Blues Boy from Beale Street", rolled on, an even better fed looking figure in a colourful braid jacket that Joseph would have [illegible].

B.B. does not exert himself [illegible] much these days. His playing [illegible] always [illegible]n unhurried, laid back, dominating not with flamboyance but [illegible] skill. The [illegible] "bent" [illegible] were there but he was more [illegible] to play along with the band than to take off on [illegible] solos, milking old, old favourites, like "Ain't Nobody's Business" and "Let the Good Times [illegible]".

It was a case of catching a legend [illegible] the end of [illegible] career, enjoying memories with this smiling father figure, rather than wondering at his genius, a Radio 3 sort of evening, missing the emotional, body churning blues that made B. B. mighty to a young audience a decade or so ago.

If B. B. gave us a man rather than music, Kraftwerk at the Academy in Brixton on Friday made the case for machines. The German band's enduring "man-machine" – computers, robots, the European ideal – seem more popular than ever, and the audience was an unlikely mix of the fashionably hip (House fans come to worship at the motherlode of every current club classic), the merely fashionable (coach loads of Germans), and the terminally unfashionable (all those young men in love with their personal computers).

They united to cheer to the echo every last blip and beat. The music is only part of the experience. Large on [illegible] video screens project technological images. The sparse lyrical content suggest big themes, as in "Trans Europe Express". All was delivered deadpan by the black suited Kraftwerk quartet, half hidden behind their computer [illegible].

Given this playing down of the personal it was not surprising when the most successful moment of the show came when the humans were replaced by four Kraftwerk robots which jerked and gestured more charismatically than their creators. This mixture of technology, humour and musical minimalism left the fans well [illegible].

Antony Thorncroft

A New World Order

THEATRE UPSTAIRS

Curtain-raiser: Bill Paterson (left) and Douglas McFerran in Harold Pinter's A New World Order

To respond to a request for a 20-minute play with [illegible] minutes of dialogue takes some front, which is one of the few things Harold Pinter offers in abundance these days, writes Claire Armitstead. The recent spate of revivals of his early [illegible] creates an illusion of activity, when in fact he has not written a full-length play for more than a decade.

A New World Order is one of four curtain-raisers commissioned as part of the Cross References season, co-sponsored by LIFT, the Royal Court and the National Theatre Studio, and now showing at the Theatre Upstairs.

Here, in a single scene, is the embattled intellectual, whose lot Pinter has so vigorously championed. Mute and blindfolded, the lecturer in peasant theology awaits his fate, leaving his torturers to speculate about what he thinks they will do to him, and what they will in fact do. "I [illegible] so pure," says one (Mich[illegible] Byrne), suddenly weeping. So he should, responds the other (Bill Paterson), "because you're keeping the world clean for democracy." Abstract language floats free of all concrete meaning: but is this just the torturer's way with words – or the playwright's?

INTERNATIONAL ARTS PREVIEW & FESTIVALS

This year's Salzburg Festival [illegible] last before Gerard Mortier assumes full control. There are seven Mozart operas on the programme, including a new production [illegible] Die Zauberflöte in the Grosses Festspielhaus, conducted by Georg Solti and staged by Johannes [illegible] (July 27, 30, Aug 2, 8, 16, 19, 26).

Opening night (Fri) sees the premiere of a new [illegible] by John Neumeier [illegible] Felsenreitschule [illegible] July [illegible], Aug 1, 4, 8), a Vienna Philharmonic [illegible] by [illegible] Muti (repeated [illegible] Sun), and Jürgen Flimm's [illegible] of Hugo von Hofmannsthal's play [illegible] Schwierige [illegible] the Landestheater. The concert programme includes [illegible] Missa [illegible] by James [illegible] 18), Mozart's Requiem [illegible] by Giulini in [illegible], and a performance [illegible] Martinu's opera [illegible] (Aug 17). Booking information: (662) 8045

[illegible] major summer festival, [illegible] Bregenz, opens [illegible] with Carmen, staged on the festival's spectacular lakeside platform. Marjana Lipovsek sings the title role, with Emil Ivanov as Don Jose and Philippe Rouillon as [illegible] Savary's production [illegible] regular collaborators – [illegible] conductor Marc [illegible] and [illegible] designers Michel [illegible] and Michel Dussarrat. There are performances on [illegible] throughout the [illegible] (ends Aug [illegible]), with alternating casts including Sally Burgess in [illegible] title role and Edmund Barham as Jose.

Bregenz's [illegible] major production [illegible] Tchaikovsky's rarely [illegible] opera Mazeppa, [illegible] by Pinches Steinberg and staged by [illegible] Jones. The production, at [illegible] Festspielhaus, will [illegible] in Russian, with Lyuba Kazarnovskaya and Lyubov Sharnina alternating [illegible] Maria, Sergey Leiferkus and Valery Alexeyev as [illegible] and Vladimir [illegible] Taraschenko as Andrey. [illegible] are [illegible] performances (opening night on Sun, [illegible] Aug 1, 4, [illegible], 11).

In [illegible] programme, Claus Peter Flor and Vladimir Fedoseyev are guest [illegible] the Vienna Symphony [illegible] (July 30 [illegible] Aug 12). Rudolf Buchbinder [illegible] in Mozart and [illegible] piano [illegible] (Aug 5), and Dezso Ranki [illegible] Edit Klukon play [illegible] Mozart [illegible] for two pianos with the Budapest Festival Orchestra [illegible] by [illegible] (Aug 18). [illegible] a [illegible] at Hohenems devoted [illegible] Mozart quintets, on Wed, Thurs and Fri this [illegible]. Booking information: [illegible] 224

FESTIVALS GUIDE

[illegible]
[illegible] production [illegible] A [illegible] Night's Dream, [illegible] by [illegible] Bedford, [illegible] two performances [illegible] at [illegible] (tonight and Fri). The [illegible] programme [illegible] includes Rudolf [illegible] staging of Le nozze di Figaro (tomorrow and [illegible] and [illegible] Luigi Pizzi/William [illegible] production of Rameau's [illegible] et Pollux (Wed [illegible] Sun). Among [illegible] (tomorrow), Manfred Hemm and Helen Donath (Wed), Andreas [illegible] (Thurs) and [illegible] Price (Sun). Ends Aug 2. (16) [illegible] 3434

[illegible]
On [illegible] of [illegible] film Salammbo, [illegible] original [illegible] performed [illegible] d'Ile de [illegible] by Jacques Mercier. The [illegible] programme continues [illegible] performances of Peter [illegible] production [illegible] Shakespeare's The Tempest and a [illegible] plays by [illegible] radical [illegible] German dramatist Heiner Müller. Ends Aug [illegible] (90) 862443

BAYREUTH
There are no [illegible] productions [illegible]. The [illegible] Thurs [illegible] Werner Herzog's 1987 production [illegible] Lohengrin, [illegible] by Peter Schneider. Paul Frey [illegible] title role, [illegible] Eva [illegible] as Elsa, [illegible] as [illegible] and Ekkehard Wlaschiha as Telramund. James Levine conducts Wolfgang Wagner's 1989 production of Parsifal (Fri), with William Pell in the title role, Bernd Weikl as Amfortas, Waltraud Meier as Kundry and Hans Sotin as Gurnemanz. The Kupfer-Barenboim Ring returns for its fourth successive season (first cycle begins on Sat). Dieter Dorn's staging of Der fliegende Holländer, new last year, is also revived (Aug 2), with Giuseppe Sinopoli as conductor. Ends Aug 28. (921) 20221.

CANNES The Nuits Musicales du Suquet include a concert tonight in which the festival director Gabriel Tacchino is joined by fellow pianist Jean-Philippe Collard and other friends for an evening of chamber music. Ends July 30. (92) 986277

EPIDAURUS
The drama festival at the Ancient Theatre of Epidaurus has two performances this week: the Greek National Theatre presents The Trojans by Euripides on Fri and Sat. Ends Aug 31. (753) 22026

GLYNDEBOURNE
The Scottish conductor Donald Runnicles, recently appointed music director of the San Francisco Opera, makes his British operatic debut on Sun in a revival of Peter Hall's production of Don Giovanni (restaged by Stephen Lawless). Olaf Bär sings the title role and Marie McLaughlin is Donna Elvira. There [illegible] performances of [illegible] Sellars' staging [illegible] Die Zauberflöte (tomorrow), Trevor Nunn's production of Idomeneo with [illegible] Electra (Thurs) [illegible] La [illegible] di Tito, [illegible] by [illegible] Davis [illegible]. Ends Aug 23. [illegible]

MACERATA
Don [illegible] Arena [illegible] (Thurs and [illegible]) is [illegible] Kuhn, [illegible] by Enrico [illegible]. Don Pasquale at [illegible] Teatro Lauro [illegible] (Fri) [illegible] a Roberto [illegible] production [illegible] Madama Butterfly at [illegible] Arena [illegible] is conducted by [illegible] Oren. Ends Aug 14. (733) [illegible]

MONTPELLIER
Tonight [illegible] Eglise Saint-Paul, Yuri [illegible] in a programme [illegible] Bach, Telemann and Tchaikovsky. [illegible] Wed, [illegible] Harold in Italy [illegible] Opéra Berlioz-Corum. Tomorrow, Hildegard Behrens, Gary Lakes, [illegible] part in a [illegible] performance [illegible] Tristan Act II, [illegible] by [illegible] Janowski. The Hilliard Ensemble gives a [illegible] Abbaye [illegible] on Wed, Gwyneth [illegible] Schoenberg's Erwartung on Thurs, [illegible] Kent [illegible] programme [illegible], Mahler and Frank [illegible] on Fri. Ends Aug 3. [illegible] 616681

RAVENNA
[illegible] a final performance tonight of La Muette de Portici (1828), an operatic rarity by Auber. Patrick Fournillier [illegible] van [illegible] production, [illegible] a [illegible] Fabbriccini. The [illegible] performance [illegible] year's [illegible] Wed, when Michel [illegible] the [illegible] Capitole [illegible] in Poulenc's Gloria and Fauré's Requiem, [illegible] soloists [illegible] and William Shimell. [illegible]

RAVINIA
This [illegible] programme [illegible] the Pavilion [illegible] 36 [illegible] of surrounding lawn) [illegible] a Brahms [illegible] the pianist Emanuel [illegible] tonight [illegible] 20.00. B.B. King and [illegible] Taylor give a concert on [illegible] by the Preservation Hall Jazz Band on Thurs. [illegible] Symphony [illegible] gives [illegible]. The [illegible] Mozart's [illegible] No 5 [illegible] Fri [illegible] Zukerman. The conductor on Fri and Sat [illegible] Mariss [illegible] and Angel Romero is guitar [illegible] on Sun. Ends Sep 2. (312 728 4642

SANTANDER
This year's festival [illegible] at the [illegible] with [illegible] performances (Fri and [illegible] Otello by [illegible] Opera [illegible] Leningrad, [illegible] Valery [illegible]. The Boston Ballet [illegible] performances on July 30 and 31, and the Spanish National [illegible] and Polish [illegible] Opera of [illegible] are [illegible] the [illegible] in August. Ends Aug 26. (42) 210508

SAVONLINNA
The final week of the festival [illegible] dominated by performances [illegible] and Rusalka by the [illegible] National Theatre. The Dvorak (tonight, Wed, Fri and Sun) [illegible] Bohumil Gregor, [illegible] Mozart (tomorrow, Thurs and [illegible] Zdenek Kosler. There are [illegible] two early [illegible] performances (Wed and Thurs) of Mozart's [illegible] buffa La finta semplice. Ends July 31. (57) 514700

SCHLESWIG HOLSTEIN
Tatyana Grindenko and Gidon [illegible] are [illegible] with [illegible] Deutsche Kammerphilharmonie [illegible] in Haseldorf (repeated [illegible] in Kiel), [illegible] Vladimir Spivakov [illegible] the [illegible] tonight and tomorrow in Flensburg, with Justus Frantz piano [illegible]. Jessye Norman [illegible] a [illegible] in Kiel on Fri. In Hamburg on [illegible] and Sun, Frantz plays all [illegible] piano [illegible], in [illegible] open air [illegible] with [illegible] Orchestra [illegible] by Yehudi Menuhin. Ends Aug 25. [illegible] 567080

SIENA
This week's programme in [illegible] Incontri [illegible] Terra di Siena [illegible] of chamber music evenings in La [illegible] on Wed, with a programme of Mozart, Kodaly and Brahms, and at the Palazzo Piccolomini in Pienza [illegible] with [illegible] programme including Schnittke's Trio [illegible] and Brahms' Piano Quintet op 34. Ends Aug 4. (578) 64050

TANGLEWOOD
This [illegible] highlight [illegible] Simon [illegible] concert on Sat with the Boston Symphony Orchestra, in [illegible] performance [illegible] Mahler's Seventh Symphony. Other [illegible] evening on Thurs led by Malcolm Bilson on fortepiano and the soprano [illegible] Valente, and [illegible] conducted by Leonard Slatkin, with Mozart piano [illegible] played [illegible] Alicia de Larrocha on Fri and Paul Badura Skoda on [illegible]. Ends Sep 1. (413) 637 1600

TORRE DEL LAGO
This year's [illegible] opens with Turandot (Fri and Sun) [illegible] by Yuri Ahronovich, with [illegible] including Ghena Dimitrova and Nicola Martinucci. Madama Butterfly [illegible] on the programme (Sat). Ends [illegible] 18. (Pazzale [illegible] 4, 55048 Torre del Lago)

FINANCIAL TIMES

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Monday July 22 1991

BCCI: get the inquiry right

THE NATURE and scope of the inquiry into the events leading to the closure of the Bank of Credit and Commerce International, announced by the Chancellor of the Exchequer Norman Lamont last Friday, remain obscure. The danger is that the inquiry will not be broad enough to discuss the real issue, which is how such an international bank was controlled in several jurisdictions in a way apparently calculated to avoid close national supervision. If the [illegible] simply upon [illegible] made by the Bank of England under the Banking Acts it is unlikely to be conclusive.

However, official inquiries can have many purposes. They may be designed [illegible] find out the truth of what happened. They may be intended to recommend changes in the legal and regulatory framework to avoid the same problems arising in future. Or they may be intended to deflect criticism and postpone any reckoning. In this case, it might be convenient for the government if the inquiry reported after the general election.

The closest recent UK precedent for an investigation of [illegible] kind is that which examined the collapse of the investment company Barlow Clowes in 1988, followed by a report by [illegible] Parliamentary Ombudsman. Those reports uncovered [illegible] failings [illegible] Department of Trade and Industry, under already super[illegible] legislation, which encouraged the government to offer compensation to investors. In the case of BCCI, tales of lost letters have evoked some of the same impression of Whitehall incompetence. But it is unlikely that the much more professional banking supervision department at the Bank of England will be found guilty of the same kind of simple blunders as the DTI. Rather, the inquiry might be put in the awkward position of trying to second-guess the decisions of sophisticated banking regulators with the benefit of hindsight.

Political complications

Moreover there are several layers of possible political complication. It looks likely that official intelligence organisations, including the CIA, found BCCI to be useful, *as did some* powerful, international criminals. Last October, BCCI's auditors, Price Waterhouse, delivered a document which might have justified the closure of the bank as much as a more recent report; but to have triggered a dispute between the Bank of England and BCCI's major shareholder, the Sheikh of Abu Dhabi, *in the* middle of the preparations for the Gulf War would scarcely have pleased the Foreign Office. This last is speculation, but it will take some very tough investigators to get near to the truth of such matters. This is not a role for a judge who will sift and weigh the evidence and come to a balanced conclusion. There will need to be an aggressive attempt to penetrate the official wall of silence. The question of the power of the inquiry to require witnesses to give evidence, *written and verbal, is crucial.*

Open doors

Even an effective UK inquiry, however, could [illegible] point [illegible] BCCI. Fault may [illegible] found [illegible] the UK deposit protection [illegible] with [illegible] of the UK's Banking Acts, but with [illegible] from the beginning of [illegible] banks from throughout the European Community will be able to set up in London, subject only to supervision by their domestic regulator. The inquiry must determine how, from the late 1970s, BCCI was able to exploit its Luxembourg and Cayman Island domiciles, and its holding company [illegible]ture, to evade the full rigour of Bank of England regulation, while still enjoying the advantages of London as a main operating base.

The unpalatable truth is that as banking has [illegible] a global, less regulated business, international supervisory mechanisms have failed to [illegible]. Mr Lamont should speak to his [illegible] Group of Ten finance ministers and propose a parallel [illegible] commission, headed by a figure of stature, to examine this vital issue; and Mr Paul Volcker, the former chairman of the Federal Reserve, might be a good choice. Otherwise, in a few years' time there will have to be an inquiry into the *next BCCI.*

The crisis in social work

SOCIAL WORKERS tend to hit the headlines only when scandals emerge over child abuse cases or repressive regimes in children's homes. All too often, the social worker is portrayed *as a fresh-faced sociology graduate*, full of woolly ideas about [illegible] engineering [illegible] the worst kind. In an era of receding [illegible] frontiers, [illegible] to look like interfering but [illegible] busybodies. [illegible] services have become a shabby luxury we can afford to do without.

The [illegible] is predictable: a profession which is understaffed, underfunded and suffering an identity crisis. Today's report from the [illegible] Services [illegible] reading. [illegible] per cent of field [illegible] worker [illegible] unfilled, too few qualified entrants and some 2,500 field social workers – a tenth of the profession – without professional qualification.

If these figures were for nurses, there would be an outcry. Yet social workers play an equally important role, heightened by the move to shift care [illegible] institutions and into [illegible] community. Field social [illegible]ers are in the [illegible] line with children and [illegible] people [illegible] risk. And they are responsible for assessing the needs of elderly and disabled people – including growing numbers of older people with degenerati[illegible].

Intractable cases

Residential [illegible] cope with similar groups in local authority homes, often the most intractable cases needing the highest quality care. Yet four [illegible] of five residential social workers are unqualified and [illegible] is a constant flow from [illegible] work [illegible] the better-paid field social work posts which [illegible] more kudos. [illegible] national figures are published on [illegible] in [illegible] homes, but many in London, for example, could not remain open without agency social workers. This turnover of staff is particularly debilitating in children's homes, where stability is a pre[illegible] which eventually saves money.

There [illegible] undoubtedly social workers who match the stereotype of the [illegible] theory-spouting graduate – [illegible] any other profession, social work [illegible] graduate [illegible]. But only one in nine of those coming off social work training courses is under [illegible] half are 30 or more and a quarter are over 40. *There may be rather more of* what the health minister Mrs Virginia Bottomley described as "street-wise grannies" entering social work than is commonly recognised.

Old myth

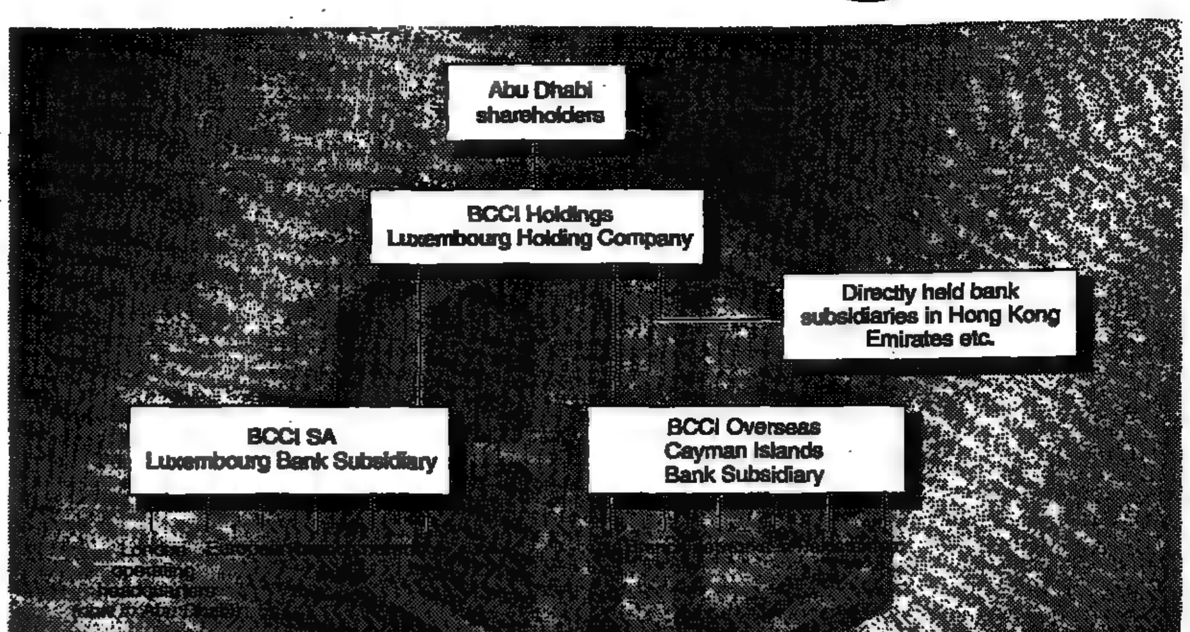
Mrs Bottomley's ideal social worker perpetuates the myth that the only qualification needed is common sense and a degree from the university of life. In fact the Department of Health now accepts the importance of training in raising the quality of social work, and has funded an additional 250 places a year on courses for the new two-year diploma in social work. This brings the total output of qualified social workers to over 4,600 a year, still short of the 5,000 places needed to meet current entry requirements. The social services directors say even this figure is *too low: if all vacancies were filled tomorrow*, the number of unqualified field [illegible] would double to almost 6,000.

Training must be increased, so that all new entrants are qualified and the overhang of unqualified social [illegible] progressively reduced. Local authorities could [illegible] encourage in-service training – [illegible] variation in between authorities in the numbers seconded for training. And with women making up [illegible] per cent of qualified entrants, those [illegible] to have a family should be lured back with flexible working arrangements so that their training and experience is not lost.

Raising the public esteem of social workers may be a longer-term process. One solution under active consideration by an official working party is a professional structure for social work. This would establish a central council to determine professional standards, control entry to the profession and act on disciplinary matters – *in much the same way as* the professional bodies for nurses and midwives. The creation of such a body would signify a long [illegible] recognition of the importance to society of the social work profession.

Richard Dale on the lessons for international bank regulators from the collapse of BCCI

Someone must be in charge



1. Holding company poorly regulated
2. Main operations split between separately located offshore centres
3. No consolidated supervision until college of regulators
4. Regulatory responsibilities dispersed within college of regulators: UK, Switzerland, Spain, Luxembourg (May 1988), Hong Kong and Cayman Islands (1989), France and UAE (recent)
5. No lender of last resort
6. Maximum use of secrecy laws
7. Operating headquarters separated from main shareholders and country of incorporation until 1990

REGULATORY PROBLEMS

WHATEVER consequences flow from [illegible] collapse of Bank of Credit and Commerce International, it is *already certain to mark a watershed* in international banking regulation.

After the initial shock-waves, bank supervisors everywhere are asking themselves the same questions: how could a supposedly well-established regulatory system have permitted a $20bn rogue institution to run amok through the world's financial markets? How could fraud on such a scale have escaped detection for so long? The result is bound to be another initiative to tighten international co-operation in supervising banks.

The BCCI collapse raises fundamental questions about the way in which global banks are regulated by national authorities. Indeed, one is bound to ask whether financial markets have not become so internationalised that the present segmented regulatory regime, loosely co-ordinated through a central bankers' club in Basle, is any longer appropriate.

This is by no means the first time that regulatory shortcomings have been exposed; indeed, all previous international initiatives in this area have occurred in the wake of financial calamities. The starting point was the collapse of Germany's Herstatt Bank in 1974, which led to the Basle Concordat in December 1975. This agreement, between the central bank governors of the main industrial countries (subsequently endorsed by other financial centres), introduced guidelines for the division of regulatory responsibilities between national authorities, one of the central principles being that the supervision of foreign banks should be the joint responsibility of parent and host authorities.

The collapse of Banco Ambrosiano's Luxembourg subsidiary in 1982 was the occasion of an unedifying dispute [illegible] Luxembourg and Italian authorities, [illegible] responsibility for supervising the Luxembourg entity (a holding company as it happens.) Following the Ambrosiano affair an amended version of the Basle Concordat was signed in 1983.

The 1983 Concordat introduced two new regulatory principles. First, it sought to ensure the adequacy of supervisory standards within national jurisdictions by adopting a "dual key" approach in which parent and host authorities assess the quality of each other's supervision. Second, it focused on consolidation, whereby the parent authority must supervise a bank's worldwide operations, including foreign subsidiaries.

Under the dual key approach, if a host country considers that the supervision of parent institutions of foreign banks on its territory is inadequate it should prohibit or discourage the continued operation of such offices or alternatively impose specific conditions on the conduct of their business.

In addition, if the parent authority considers that the host authority's supervision is inadequate it should "either extend its supervision, to the degree that is practicable, or it should be prepared to discourage the parent bank from continuing to operate the establishment in question".

In other words, each national supervisory authority must satisfy itself that banks' foreign operations are being conducted in jurisdictions with sound supervisory practices and that foreign banks to which it is host are subject to adequate supervision in their home jurisdiction. The intention was to reverse the tendency for banks to gravitate to the least-regulated jurisdictions with resulting "competition in regulatory laxity" between financial centres competing for foreign banking business.

This system should in theory ensure that supervisory standards are aligned on those of the most stringently regulated centres rather than vice versa. For that to happen, however, national authorities in the leading banking centres must be prepared to lock out foreign banks originating from permissive jurisdictions and prevent their own banks from conducting international operations in such locations. In the light of BCCI, it must be doubted whether this key element of the Basle framework is working.

The attempt to ensure adequacy of supervision is buttressed by the other significant innovation of the new Concordat – consolidated supervision. The Concordat states that "banking supervisory authorities cannot be fully satisfied about the soundness of individual banks unless they can examine the totality of each bank's business worldwide through the technique of consolidation". The idea is that overall supervision should be strengthened by having parent authorities supervise risks on the basis of banks' global operations.

In what may now be viewed as a controversial provision, the Concordat allows for an exception to the consolidation principle. It states that "where holding companies are at the head of groups that include separately incorporated banks operating in different countries [a precise description of BCCI's corporate structure] the authorities responsible for supervising those banks should endeavour to co-ordinate their supervision of those banks, taking account of the overall structure of the bank in question".

BCCI may be viewed as a test case for the Basle Concordat since it appears to have been structured in a way that was intended to minimise regulatory constraints (see chart). This is an important aspect of the *affair because it is precisely those* banks that are seeking to avoid regulatory attention that need to be supervised most closely.

In the first place, the parent entity of BCCI is a Luxembourg holding company which escapes regulation under Luxembourg law because it is not classified as a bank. This state of affairs is in itself unsatisfactory, bearing in mind that the collapsed Banco Ambrosiano subsidiary had avoided regulation in Luxembourg [illegible] same reason. Holding companies that own banks should be subject to rigorous supervision – as indeed they are in the US where the holding company structure is the norm.

BCCI appears to have been structured in a manner [illegible] was intended [illegible] minimise regulatory [illegible]

Second, BCCI's banking operations are split between two main subsidiaries incorporated in different jurisdictions – Luxembourg and the Cayman Islands. This structure ruled out consolidated supervision and a college of regulators [illegible] established in May 1988, initially consisting of Luxembourg, the UK, Switzerland and Spain. However, why was the college was not set up earlier? And why was the membership only gradually expanded ultimately to include Hong Kong, the Cayman Islands, France and the UAE? Finally [illegible] is far from clear that a dispersal of regulatory *responsibilities* [illegible] many national authorities is a safe way of dealing [illegible] this kind. Should not *someone* be in charge?

The fact that BCCI was permitted to establish itself and operate for so long within a faulty regulatory framework is surely a central issue in this affair. Once the bank had expanded to become a $20bn multinational institution the regulators faced an awesome choice between a disastrously costly closure and a risky reconstruction.

Furthermore, [illegible] closure option was [illegible] from straightforward. It was presumably necessary to secure broad agreement among the main regulators since any unilateral action by, say, the UK would have precipitated a disorderly collapse of the whole group. In addition, the Bank of England may have been hampered by the requirements of the 1987 Banking Act. This statute gives the Bank a broad discretion to withdraw authorisation from an institution (it is, for instance, unnecessary to prove fraud) but the procedure is cumbersome and includes a requirement to give notice to the institution concerned. That is hardly an appropriate mechanism where fraud is suspected, since the opportunity would be given to remove assets from the jurisdiction, thereby jeopardising the interests of depositors. The inadequacy of the de-authorisation procedure evidently forced the Bank of England to seek liquidation of BCCI, the grounds for which are much narrower and which in this instance require [illegible] proof of fraud.

In [illegible] event, [illegible] decision on whether or not to close a bank is a matter [illegible] judgment, and one not likely taken in a case such as this, where [illegible] chief shareholders are apparently willing to make good any capital shortfall.

Indeed, so long [illegible] the problems are remediable the interests [illegible] depositors are best served by keeping the bank going while ensuring that corrective action is taken. Closure is appropriate only when fraud or other irregularities have infected the whole bank and cannot therefore be cleansed.

No doubt the inquiry announced last week by Mr Norman Lamont, the UK chancellor, will be looking very carefully at the basis on which the closure [illegible] was reached. But on the broader question of regulatory reform it [illegible] important [illegible] understand that we are talking here of international rather than specifically UK regulatory weaknesses.

The following issues in particular will need to be addressed:

● Are the informal and broadly-drawn guidelines set out in the Basle Concordat an adequate basis for regulating international banks? Arguably, much tighter rules are needed, particularly as they relate to supervisory [illegible] which [illegible] considerably between financial [illegible].

● This point is of particular concern [illegible] *the approach of* [illegible], [illegible] banks incorporated in Luxembourg, for example, will be able to branch automatically into the UK, leaving the UK authorities with no say whatever in the matter. In this context, too, one must question the soundness of a regime in which offshore banking centres compete with one another by offering secrecy, and fiscal and regulatory inducements.

● The principle of consolidated supervision that was adopted in 1983 should be more rigorously enforced – particularly in relation to complex multinational banks where the opportunity for regulatory evasion is greatest. There should be no exceptions, even if that means the dismantling of existing structures.

● Every bank operating in international markets should have access to a lender of last resort in its country of origin. In the BCCI case – thanks to a smooth closure operation – this was not a [illegible] factor but it is worth noting that if there had been a disorderly collapse things could have been very *different. Because* BCCI is largely a dollar-based bank its sudden failure could have threatened the integrity of the US payments system, possibly forcing the US authorities to provide emergency support.

● The issue of fraud has to be confronted. In the BCCI case the Luxembourg authorities have been quoted as saying that their regulatory arrangements could not [illegible] with fraud. However, fraud and other criminal activity [illegible] liable to gravitate to [illegible] financial centres which combine strin[illegible] [illegible] laws with a weak regulatory environment. This is a complex area where there are no ready answers but regulators may have to become involved in regular on-site bank examinations.

■ The procedures [illegible] closing and liquidating [illegible] banks [illegible] be [illegible]. The BCCI closure was relatively clean but could have been delayed both by the absence of a lead regulator and by procedural difficulties. The liquidation is likely to take several years and will involve all manner of conflict of law problems in many jurisdictions.

The failure of a bank, even a large bank, does not necessary point to regulatory failure. But in the BCCI case there are ample grounds for believing [illegible] has gone seriously wrong. What is clear is that a purely UK inquiry into regulatory shortcomings is not enough. What is required is an international commission of inquiry to investigate the whole question of financial regulation now that we have truly global banking and securities markets.

The author is Coopers Deloitte professor of international banking at Southampton University and consultant editor, FT Financial Regulation Report

Neglected history

■ *Is there anything left of* Britain's late and long lamented world leadership in developing the computerised machine-tool? Yes, says Curtis Sparkes, who has just won a PhD at the age of 86 for his study of the history of the electronically controlled manufacturing systems now known as machining centres.

But he fears that the evidence of the UK's trail-blazing – in which he claims to have played a leading role – will soon be snapped up by the Japanese, who didn't jump on the computerised band-wagon until 20 years later.

The world's first numerically controlled machine-tool, he maintains, grew out of the *somewhat drably named* horizontal boring rig evolved in the 1920s and 30s by Lancashire company H.W. Kearns, which Sparkes joined as an engineering apprentice in 1919.

The tool played a full part in the Second World War, helping to make things military in India, Canada and Australia besides Britain. Then, with the war over, Kearns's enginee[illegible] set out to take the design further.

They eventually converted it to electronic control with the aid of a precision measuring system developed by the old British Thomson Houston company. The resulting technological wonder was bought by British United Shoe in Leicester in 1955.

It served well, too, for nearly two decades, its main inventor recalls, which makes what has happened to it since shameful. For in the mid-1970s the Leicester buyers donated it to the Manchester Museum where Sparkes says it still *languishes in the dismantled* form it arrived in, the curators never having bothered to put it back together.

Their lack of interest contrasts with attitudes in Japan. Indeed top machine-tool company Yamazaki has built a special hall in Tokyo to house a historical exhibition of computerised manufacturing systems, and has written to Sparkes asking where it might find an example of Britain's original invention.

"I hadn't decided whether to tell them," he adds. "But I suppose that now I've talked to you, they'll know anyway."

OBSERVER

Purgatory over

■ Meanwhile, having served his purgatory, Japan's Toyoo Gyohten has descended to the Bank of Tokyo as an adviser.

Being a former vice-minister of finance for international *affairs, he had to wait two* years before joining a Japanese financial institution. Even so, it has been known he'd go to the bank, and widely presumed he'd be its next chairman.

"Internationalisation" has been a popular word in Japan for the past few years, and Gyohten is seen as one of the most international of Japanese [illegible] figures. At the ministry, he oversaw the liberalisation of the financial system, while part of his purgatory has been spent as a visiting professor at the US Princeton University.

His skills will be welcome at BOT whose charmed status as "Japan's foreign exchange bank" will not be enough to keep the profits flowing in coming years. And while the bank says his succession to the chairmanship next June is not yet decided, it [illegible] that "we cannot say it is not a possibility".

"He can't see you at the moment, he's eating his correspondence."

Ups and downs

■ It is hard to tell which is the more interesting point about Dreyfus Corporation's new chief economist Richard Hoey: his extraordinary track record in spotting economic trends, or his unfortunate choice of employers during his 15-year stint on Wall Street.

He has certainly made some brilliant investment calls over the years. He spotted the peak in long-term interest rates at the start of the 1980s and got the timing of the latest US recession right. On the other hand he has probably worked for more investment firms that have either gone out of business or gone bust than most of his peers.

Hutton, Bache, Becker, Drexel Burnham... Hoey's choice of employers down the years has been unusually accident prone.

After Drexel's demise he seemed to have found a safer home when he joined the New York investment banking arm of Barclays BZW. Alas the parent soon lost one of its coveted Triple A credit ratings, closed its US equity broking business, and although Barclays wanted to keep Hoey, he was on the move again.

His latest port of call, US mutual fund giant Dreyfus, is a very solid institution. It has more than $70bn of assets under management and a good record of making money for its customers. But whether 48-year-old Hoey has finally beaten his run of bad luck, time alone will tell.

War games

■ When Keith Miles, finance director of fashion retailers Etam, accepted the honorary post of secretary general of the Slovenia Information office in London's Regent Street, he thought the main benefit would be the occasional cocktail party, not the odd Molotov cocktail.

Having married a Slovenian, he knew the country well, and was already being used as a part-time economic adviser by the local administration. However following the unrest in Yugoslavia, Miles has been catapulted into the political limelight with his face popping up everywhere from Sky TV to BBC's Newsnight. Worse still, his own company is under attack from a bunch of South Africans.

"We are fighting for our independence and do not want to be taken over by foreigners. Please get your tanks off my lawn", *is his standard* response to all queries these days. Happily, he tells me, he thinks he's winning on all fronts.

Rain check

■ [illegible] New [illegible] rainfall has not quite matched Britain's, the Big Apple did suffer one sodden week that forced the cancellation of an open-air recital by Luciano Pavarotti in Central Park.

The organisers thought the day had been saved when the Metropolitan Opera rescheduled a performance of Don Giovanni – under covers – to fill the gap. But one ticket-holder was not so sure. On calling up to check [illegible] happening, he [illegible] told that Pavarotti was off and Don Giovanni on instead.

"Is he as good as Pavarotti?", the caller snapped.

Price row leaves everybody fuming

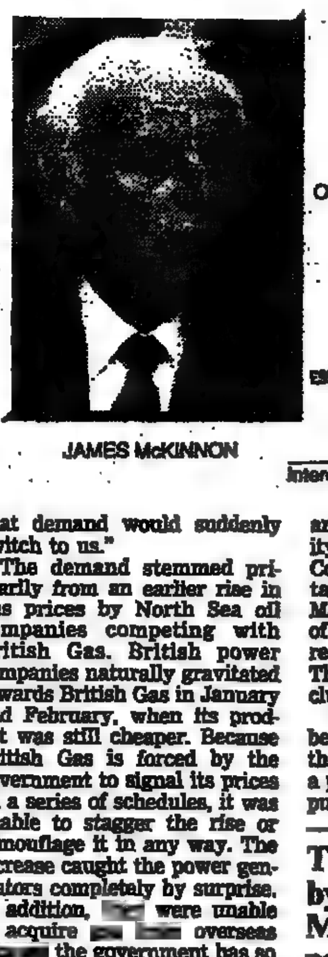
Deborah Hargreaves says British Gas could face legal action over higher charges for generators

A row over the price of gas to power generators threatens to erupt into legal action this week unless British Gas can find a way to bring tariffs down.

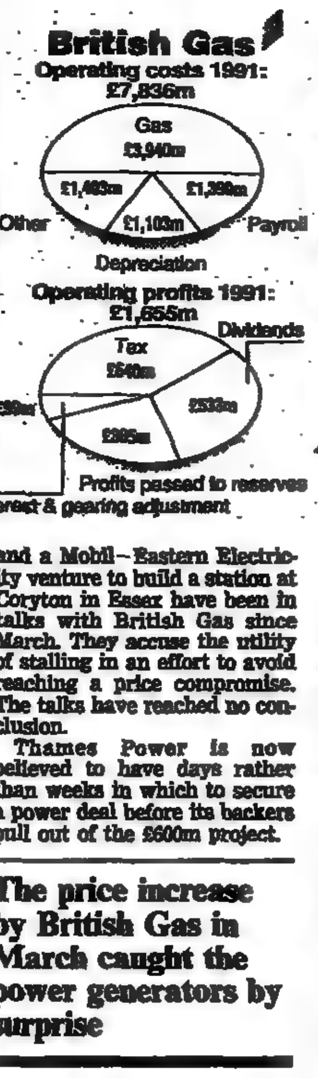
The dispute is also jeopardising the government's aim of introducing more competition into the electricity industry. It demonstrates the glaring need for a well-formulated national energy policy in the UK following the massive privatisation initiatives of the past six years, and it highlights the difficulties of turning state-run monopolies into fleet-footed private sector operators.

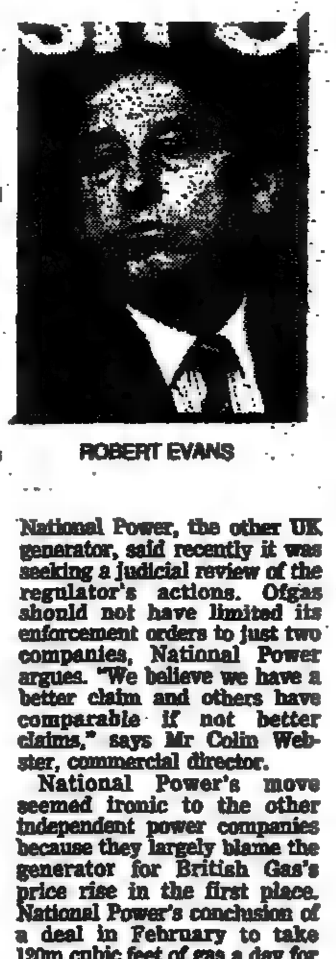
The argument could come to a head this week because British Gas will probably be forced by the Office of Gas Supply, the industry regulator, to cut its prices to power generators. But the problem has become so complex that legal action seems increasingly likely as the only way out of a battle that could drag on for months.

When British Gas decided suddenly to raise its prices to power customers by 35 per cent in March after being deluged with demand for gas from companies planning to set up gas-fired power stations, it set off a bitter debate. Gas is the fuel of choice for new power generation projects because it is cleaner and cheaper than coal. But in such a low-margin business as power generation, demand is extremely price-sensitive.



JAMES McKINNON





ROBERT EVANS

Before British Gas raised its prices from 18p a therm to 25p a therm, it was faced with demand from 18 power projects for 6bn therms of gas – equal to the size of the entire UK industrial and commercial market. "It was a staggering amount," said Mr Colin Playle, director for gas marketing.

The price rise was aimed at choking off demand: British Gas realised it could not possibly meet the power projects' needs at the same time as continuing to supply its 20m domestic customers. The rise also passed on to the power generators the higher costs that British Gas had been paying for its own gas since November [redacted]. In fact, British Gas accounts reveal the company paid an average price of 18.5p a therm last year – before the government's tax levy which pushed its average price up to 18.2p. It was clearly unprofitable for British Gas to offer gas to power [redacted] at 18p a therm.

Although British Gas says its market forecasts are very sophisticated, it failed to anticipate the surge in demand from power customers. "We knew they were talking to other suppliers as well as to us," said Mr Playle, "but we were never aware or understood that all that demand would suddenly switch to us."

The demand stemmed primarily from an earlier rise in gas prices by North Sea oil companies competing with British Gas. British power companies naturally gravitated towards British Gas in January and February, when its product was still cheaper. Because British Gas is forced by the government to signal its prices on a series of schedules, it was unable to stagger the rise or camouflage it in any way. The increase caught the power generators completely by surprise. In addition, [redacted] were unable to acquire [redacted] overseas [redacted] the government has so far not sanctioned any imports.

The utility's price move [redacted] furore in [redacted]. At least six power companies complained to Mr James McKinnon, the acerbic industry regulator who is director-general [redacted] Ofgas. He intervened on behalf of two [redacted] generating projects which he deemed closest to completing a finance deal, and issued "enforcement orders" forcing British Gas to negotiate with them about supplying gas at the old price.

Thames Power, a joint venture between BICC, CU Power of Canada and Schroders, which has plans to build a station at Barking in east London, and a Mobil – Eastern Electricity venture to build a station at Coryton in Essex have been in talks with British Gas since March. They accuse the utility of stalling in an effort to avoid reaching a price compromise. The talks have reached no conclusion.

Thames Power is now believed to have days rather than weeks in which to secure a power deal before its backers pull out of the £600m project.

The price increase by British Gas in March caught the power generators by surprise

In fact, British Gas does not want to secure an agreement with just these two companies for fear it will anger other companies that were also in price talks before the increase. PowerGen, one of the two UK power generators, has said it will sue British Gas if the two companies get a better deal than others. At the same time, Mobil, Eastern Electricity and Thames Power have all issued writs against British Gas and the utility has issued a writ against Ofgas.

In a new twist to the saga, National Power, the other UK generator, said recently it was seeking a judicial review of the regulator's actions. Ofgas should not have limited its enforcement orders to just two companies, National Power argues. "We believe we have a better claim and others have comparable if not better claims," says Mr Colin Webster, commercial director.

National Power's move seemed ironic to the other independent power companies because they largely blame the generator for British Gas's price rise in the first place. National Power's conclusion of a deal in February to take 120m cubic feet of gas a day for 15 years for its Didcot power station was widely seen as precipitating the price rise because it tied up such a huge amount of gas. National Power says it wanted even more gas: it was ready to sign for the same amount again when it was hit with the price rise.

Some independents see the current dispute as the symbol of a deeper conspiracy. They believe that a cosy relationship exists between British Gas and National Power to force independent generating companies out of the market – a charge that is hotly denied by both.

Nevertheless, British Gas does have its own ambitions to enter the power generation market, and recently revealed plans to build a 1,200 Megawatt gas-fired station at Avonmouth near Bristol in conjunction with Midlands Electricity. Similarly, National Power wants to get into gas exploration and production. It was awarded two exploration blocks as part of a group of companies in the most recent North Sea licensing round. Some independents point to these respective ambitions as evidence of a growing strategic relationship between British Gas and National Power.

The Office of Electricity Regulation is now believed to be looking into the entire power generating issue with a view to deciding whether the large generating companies are abusing their huge market clout.

British Gas is trying to find a way out of the mess without recourse to the courts. Ofgas says it is pushing the utility to behave in a more entrepreneurial way. Mr McKinnon believes there is more gas available in the market than British Gas has so far admitted.

Indeed, British Gas is [redacted] sure that it wants to [redacted] the power generators at all. "British Gas did have to give very careful consideration before entering this market," Mr Playle said. "This is a high volume, inflexible business because it ties up gas for 15 years ... so British Gas did not initially see itself as a major supplier in this market."

However, Ofgas points to the British Gas statute that requires it to respond to any reasonable request for gas as long as this is economic. If Ofgas does force British Gas to lower its prices, it will have to do so in a way that does not re-open the floodgates to huge demand and yet ensures that prices remain high enough to generate profits. This fine calculation is causing much anguish at the utility.

What the dispute certainly highlights is the government's lack of a clear energy strategy now that most main energy suppliers are in the private sector. Mr John Wakeham, energy secretary, has exerted pressure behind the scenes for companies to continue negotiating rather than resorting to litigation. But while the government is eager to see new generators competing in the electricity market, it seems reluctant to sanction gas imports from Norway which would enable them to do so.

If the row over gas prices degenerates into a complex round of lawsuits, it could have the important effect of pushing the government to reconsider its laissez-faire approach to energy.

Samuel Brittan

Liberalism from first principles

In the [redacted] presidential election, George Bush made headway against his Democratic opponent by tarring him with the "l" word, liberal. By this he meant that he was looking for ways of increasing government control over matters which should be left to private citizens.

In Europe, by contrast, liberalism, although often used in many conflicting senses, still retains a shade of its classical sense of a doctrine about personal freedom, which is particularly relevant to countries emerging from centrally-regulated dictatorships. Democracy in the sense of majority voting is merely a convenient decision rule, which unless part of a wider system of conventions and constraints, can itself be highly coercive.

It is therefore well worth studying a new attempt by Mr Anthony de Jasay to restate the principles of liberalism.[1] De Jasay is dissatisfied with most modern attempts because they are too loose. Classical statements take the form that freedom is to be constrained only to protect the interest of others. But the nature of this qualifier is highly subjective; and even a strong anti-interventionist like Friedrich von Hayek finds it difficult to devise criteria which would rule out a Swedish-type welfare state in which 70 per cent of gross national product passes through government [redacted].

[redacted] writer, John Gray, faced [redacted] difficulties, has abandoned liberalism in favour of a non-doctrinal conservatism which he hopes will support, not freedom in the abstract, but particular freedoms, e.g. from arbitrary arrest or from press censorship.[2] But this is to throw in the towel. In my own book[3], I maintain that it is possible to state some presumptions, such as non-paternalism, general rules, market remedies and a limited political sphere, which, although no fool-proof guide, are a good deal better than pretending to judge each issue on its merits.

Mr de Jasay, however, makes a brave attempt to present liberalism as a rigorous set of deductions from principles which are either self-evident, indisputable or at least make a strong appeal to intuition. He tries to get round the point that most liberals value not only freedom but other goals, such as peace and prosperity, by switching the emphasis from freedom to individual choice, which can comprise the latter. He has six principles; the first three he calls "axioms of choice", the final three "precepts of social co-existence".

1. *Individualism.* Only individuals can choose.
2. *Politics.* They can choose for themselves, for others, or both.
3. *Non-domination.* "The point of choosing is to take the preferred alternative."
4. *Contract.* Promises shall be kept.
5. *Priority.* "First come, first served."

Democracy meaning majority voting is just a convenient decision rule which can be coercive

6. *Exclusion.* All [redacted] is private.

By the first axiom he means roughly what Mrs Thatcher meant in saying that there is no such thing as society, only individuals and their families. There is nothing selfish or small-minded in basing politics on the choices of individual people, who alone can sympathise with, and help other individual people. Where Mrs Thatcher's vision fell short was that she did not see that if there was no society, there was no country or nation – notions to which she is so attached.

The second principle is a concession to the occasional need for collective coercion, which, unless it can be limited, torpedoes the other principles. The author has in previous works argued that many activities which most economists have considered to be public can be provided on a voluntary or market basis.

I suspect that the biggest weakness is in the fifth principle. This is meant to overcome the long-standing weakness of liberalism: the absence of a theory of just property rights. It is indeed more realistic than John Locke's theory about property being derived from labour or Robert Nozick's unexplained concept of just acquisition; and it sounds very robust when illustrated by the example of a 10-pound note belonging to the first person who picks it up. But it amounts to justifying any distribution of wealth which happens to exist. It is not appealing enough to provide the bar to collective redistribution which the author would like.

It is in the end impossible to judge the fruitfulness of these principles until their implications for particular instances have been elaborated. Nothing would do the author a greater injustice than to claim – as some Institute of Economic Affairs readers might – to accept his principles and then discuss mundane issues such as industrial training or trade policies in a way which completely flouts them.

Although I have learned a lot from de Jasay, I doubt whether [redacted] axiomatic approach [redacted] liberalism, or political theory in general will work. If I wanted to explain the characteristic virtues of liberalism to someone in eastern Europe or from a Latin country I would suggest yet another new book[4] by the Brazilian JG Merquior. This last author takes an avowedly historical approach, and sees as the common feature among many different liberal thinkers the recognition of the rights granted by majorities to minorities. The statement may not be rigorous, but it takes in an awful lot. Liberals are not so thick on the ground that they can afford to confine recognition to the band of an elect.

[1] *Choice, Contract, Consent, IEA, 1991, £8.95.*
[2] *A Conservative Disposition, Centre for Policy Studies, 1991.*
[3] *A Restatement of Economic Liberalism, Macmillan, 1988.*
[4] *Liberalism Old and New, DK Hall, Philadelphia, 1991.*

LETTERS

Former Midland chief denies any bad debt provisions on arms sales or links with intelligence services

From Mr GW Taylor.

Sir, The article which the Financial Times published on July 15, "Midland operated secret defence offshoot", concerning Midland Bank and its trade finance activities was a mixture of the true, but trivial, and the misinterpreted, with a lot of complete nonsense.

I note that Midland has already responded. Nonetheless, I remain concerned at the absurdly exaggerated and misleading impression which your article gives about the group at a time when I was chief executive. *I should remind you that* I ceased to be group chief [redacted] tive of Midland in September 1986 and retired and ceased to have any connection with the group in February 1987. *This* letter is written in my personal capacity.

The main concern of your reporters in talking to me appears to have been to find out if I remembered the names of three or four people. That I should not recognise the names of three or four people who may have been employed as part-time advisers to one part of the group will be obvious to those who understand how a very large multinational business works. If I remember correctly, the group worldwide employed something like 80,000 people at that time and as many as 1,000 people were employed full-time within the Midland International Trade Services (MITS) area. There were at least two layers of management between me as chief executive of the [redacted] and the head of MITS. It [redacted] simple nonsense to conclude that, because I did [redacted] nise three or four [redacted] of those who [redacted] have been part-time employees some seven or eight years ago, this *suggests, still* less proves, a lack of management accountability.

I explained clearly to your reporters [redacted] the bad [redacted] provisions crea[redacted] by MITS in 1983 had no connection with anything that could be described as arms sales. The provisions were mainly the result of the export of trade and consumer goods such as household and automotive products from the US, the UK and Switzerland to a number of countries, particularly in Latin America which later experienced payment problems.

It is simply untrue to say that the loses in MITS were unknown to me and the senior management of the group or that they were concealed from shareholders. The difficulties in MITS had already been mentioned by me in the 1982 annual reports and elsewhere.

You must surely agree that as a big British bank it was natural [redacted] Midland to be engaged in financing exports. I am pleased you acknowledge that [redacted] major customer at [redacted] asked, said *that it* [redacted] UK co[redacted] the support received from Midland to have [redacted]n helpful.

Finally, your absurdly [redacted] suggestions of links of [redacted] kind [redacted] intelli[redacted] and Midland [redacted] last [redacted] of decades *smack* more [redacted] ingenuity than reality. I did not know at the time and I still do not know whether any of the people who worked for the group retained links of some kind with some part of the intelligence services. I hope they did not. The point is that, if they did, it does not justify the gross exaggerations contained in your article.

GW Taylor,
The Mount,
Parkfield,
Oxshott,
Surrey KT2 0PW

A subsidy to stop the rot

From Mr Geoff Beacon.

Sir, In your July 19 leader you commented on the problems of long-term unemployment in Europe.

For many years I have been advocating the use of large, long-term labour subsidies for those whom unemployment affects most – the lower paid. Based on calculations from a simple mathematical model of the economy, I have suggested taxing the employment of capital and higher paid labour to finance these subsidies.

Europe seems quite happy to continue large-scale support for food production by means of an intervention price mechanism that takes [redacted] value produce off the market. This, at least, has the possible benefit of creating a store for possible future lean years. In the labour market, however, the intervention price – the dole – takes labour off the market to let it rot and fester. Wouldn't a subsidy be so much better?

Geoff Beacon,
36 Belle Vue Street,
York YO1 5AY

Role of IBM and others in the Merlin programme

From AB Cleaver.

Sir, Your article "Helicopter contract lobbying [redacted] up" (July 16) on the Ministry of Defence's competition to find a prime contractor for the Merlin programme contains several statements which might mislead your readers.

The article implies that the company chosen as the prime contractor will assume responsibility for worldwide marketing. This is not true. The EH101 is developed and marketed by EH Industries (EHI), a company jointly owned by Westland and Agusta. It is for EHI to market the EH101 not, as is suggested, for IBM, British Aerospace or GEC.

The article also speculates that the US government might seek to place restrictions on UK export sales because of prior US government funding of certain IBM software. The *fact is that Merlin* will use advanced [redacted] which is already under development in the UK. It is specific to Merlin and does not rely on any existing IBM software.

As regards job prospects, the IBM proposal places well over 98 per [redacted] of the business in *the UK.* [redacted] *is* essentially no US export content. It is envisaged that all the existing subcontractors (including GEC-Avionics, GEC-Sensors, GEC-Ferranti and Racal) will be retained. The net effect [redacted]uld be an increased workload for Westland's skilled engineering staff and the transfer to the UK *of highly specialised expertise.*

In conclusion, I would point out that IBM was invited to participate in the competition because of our proven expertise as demonstrated by our successful delivery of the US Navy's anti-submarine warfare helicopter on time, to price and to specification. We are committed to do the same for the Royal Navy.

AB Cleaver,
chairman and chief executive,
IBM (UK),
Portsmouth, Hampshire

More inventive

From ASL Owensmith.

Sir, In your article, "Call For Technology Transfer" (July 15), the DTI is said to have estimated that about 30 per cent of the world's innovations come from Japan. It would be interesting to know how it arrived at such a conclusion, bearing in mind that – according to Japan's own Department of Information and Technology – of all the more worthwhile inventions since the Second World War, 52 per cent have been British, 22 per cent American and 6 per cent Japanese. I suggest the DTI spend more time promoting British technology in order to provide some inward cash-flow as opposed to outward, as in the article referred to. However, I would not disagree with the implication that British companies in need of technology are timid.

ASL Owensmith,
87 Burgh Heath Road,
Epsom, Surrey

An insurance opportunity

From RM Bale.

Sir, Perhaps there will now be [redacted] market for the insurance [redacted] one's bank depos[redacted] This would have two advantages:

1. *The depositor would sleep at nights;*
2. Such an insurer would be motivated to do a better job of close contact regulation than appears to have been the case in the sad BCCI saga.

RM Bale,
Roque Berg,
St Clement, Jersey

Fax service

LETTERS may be faxed on 071-873 5938. They should be clearly typed and not hand-written. Please set fax machine for fine resolution.

FINANCIAL TIMES
Monday July 22 1991

Moves to fend off Japanese will leave thousands unemployed

EC car chief warns of huge job losses

By John Griffiths

THE EUROPEAN Community is facing the [illegible] of "[illegible] hundred thousand" jobs through European motor industry restructuring to fend off the Japanese, according to Mr Raymond Levy, president of the European car industry lobby group Acea and chairman of Renault, the French state-owned car company.

While the industry [illegible] warned in the past of "tens of [illegible]" of job losses, this is the first [illegible] the full scale of feared redundancies [illegible] been highlighted by the Acea.

[illegible] Levy's warning [illegible] coupled with an indirect indication that France may not tolerate a car market share for the Japanese of more than 4–5 per cent during a [illegible] transitional period towards a fully open EC market in [illegible] including vehicles from Japanese "transplants" inside the EC, notably in the UK and Spain.

His remarks are timed to influence the final stages of negotiations between the EC [illegible] Japan on [illegible] post-1992 regime for [illegible] sales in the EC. These are expected to take place over the next few weeks.

Hopes that the transitional arrangements might have been agreed in time for them to be embraced by the weekend's joint EC-Japan declaration, pledging [illegible] place relations on a more elevated level, [illegible] unrealised as a result of continuing dissension on the [illegible] among EC partners.

In warning [illegible] the [illegible] of job [illegible], Mr Levy insisted the [illegible] had been "misunderstood" about [illegible] reports [illegible] industry [illegible] seeking subsidies for restructuring. "I did not [illegible] the companies should be [illegible] to facilitate restructuring. [illegible] I did [illegible] was that the industry [illegible] restructuring and [illegible] this [illegible] employment problems, and that these should be taken care of by government or EC [illegible]."

The Acea which, says Mr Levy, fully accepts that the EC market should [illegible] open to unrestricted Japanese competition after 1999, is preparing a report for the EC Commission giving firm [illegible] of job cuts facing the industry. This is due to be delivered in about two months.

Ironically, the [illegible] [illegible] is putting on [illegible] social burden of restructuring in the industry, while contrasting it with the perceived lack of such burdens in the Japanese industry, has been highlighted by an outburst by Mrs Edith Cresson, France's prime minister, describing the Japanese as "ants" living in inhuman conditions.

According [illegible] the Commission's recently agreed bargaining position with Tokyo, Japanese cars would be allowed up to 15 per cent of the overall EC market after [illegible] disappearance of national curbs from [illegible]. They would then have free access from 1998 or 1999.

However, says Mr Levy, each national market should have [illegible] limits. "Each should be limited to [illegible] [illegible] swallow safely."

The Commission is still assessing this issue, with little [illegible] sympathy for the Acea. However, [illegible] Levy insists, "sales penetration in Italy and [illegible] has to be established in relation to what it is now [less than [illegible] per cent of new car sales are imports from Japan]. If we have in eight years the situation where Japan has 10 per cent of the market – that is too much. We would find 4–5 per cent more acceptable".

Mr Levy acknowledges [illegible] such a stance puts Acea manufacturers on a potential collision course with the UK.

Mr Peter Lilley, UK industry secretary, concluded a meeting with Mr Frans Andriessen, EC [illegible] relations commissioner, at the end of last week, claiming the UK now has the support of all three commissioners involved in the dispute – the others are Sir Leon Brittan and Mr Martin Bangemann – [illegible] ensuring the transitional arrangements provide for unrestricted access of UK-built Japanese cars to all EC markets.

However, the Acea and Mr Levy wants them included in [illegible] overall transitional limits on Japanese penetration.

Mr Levy insists "we recognise that Japanese manufacturers [illegible] have the freedom to set up transplants. But they know that we won't accept targeting. And if Mr Lilley means that he wants such companies of Japanese origin to target the French or Italian market to the extent that they want to disrupt it, then there is a big [illegible] ... British interests are not the only ones to be taken into account."

Raymond Levy: industry needs restructuring

UN to debate lifting Iraqi oil sales embargo

By Lionel Barber in Washington

SENIOR UN representatives are [illegible] today in discussing whether the embargo on Iraqi oil [illegible] should be suspended temporarily to enable the country to finance food and medicine imports.

The UN sanctions committee is under some pressure to offer a [illegible] of [illegible] relief to the Iraqi people, who have endured a trade embargo for almost 12 months since the invasion of [illegible].

But the proceeds from any oil sales, which will be [illegible] UN control, will also be used to bolster UN [illegible] to track down Iraq's nuclear facilities and strengthen the UN presence watching over [illegible] refugees in northern Iraq, UN officials said.

This week, [illegible] committee wants to reach agreement on a formula known as "100 per cent capture", under which the UN would [illegible] total control over the [illegible] of the $1bn oil sale.

Since the end of the Gulf war, Iraq [illegible] repeatedly pressed the sanctions committee for permission to sell $1bn of oil.

Led by hardliners such as the US and Britain, the committee has [illegible] on the grounds that President Saddam [illegible] could divert the money for his own use.

The latest skirmishes between the Iraqi army and Kurdish [illegible] have [illegible] a shadow over the debate, but the Bush [illegible] has avoided any suggestion that it intends to take military action in response to Iraq's move.

US officials note that last week's clashes near Erbil and Sulaimaniyah took place outside the allied security zone for the Kurds, and did not involve the use of fixed wing Iraqi aircraft or helicopters in direct violation of the UN [illegible] terms. Reports of casualties vary, though more than 100 people may [illegible] been killed or wounded.

The US, Britain, and France, all members of the UN Security Council, appear united in seeking to maximise pressure on Mr Saddam by enforcing the UN ceasefire terms to the letter – to the point where he appears weak in the [illegible] of his own military and people.

A fourth UN inspection team is scheduled to leave for Iraq this week to examine further suspected nuclear sites and demand a full accounting [illegible] [illegible] chemical, biological and [illegible] weapons programme.

UN [illegible] are preparing a fresh Security Council resolution to incorporate the International Atomic Energy Agency's formal condemnation of Iraq for [illegible] to submit all its nuclear research facilities to international inspection.

[illegible] week's IAEA action marked the first time a country party to the Non-Proliferation Treaty had been cited for concealing [illegible] to develop nuclear weapons.

Washington remains deeply sceptical of Iraq's pledges to comply with the UN – a mood reinforced by Iraq's confirmation that it sent troops [illegible] the southern marshlands.

The confirmation was coupled with a denial that it intended to attack Shia Moslem refugees.

The Iraqi [illegible] appeared in a letter to [illegible] Sadruddin Aga Khan, the special UN envoy in the Gulf.

Prince [illegible] was initially denied access to the southern marshlands while Iraqi forces were reportedly [illegible].

Several days later, UN representatives were asked to leave. This contravened UN resolution [illegible] and [illegible] with UN relief efforts, Mr John Bolton, assistant secretary for international organisation affairs, told Congress last week.

UN says companies fuel world growth

By William Dullforce in [illegible]

MULTINATIONAL companies' foreign investments have been growing three times faster than world trade since 1983 and promise to be the crucial factor fuelling world economic growth in the 1990s, according to a study by the United Nations Centre on Transnational Corporations (CTC).

The study, the first to investigate the investment relationships of the US, the European Community and Japan with each other and with the rest of the world, tracks the phenomenal growth of foreign direct investment during the 1980s. Its findings have important implications for national and international policymaking, [illegible]use they [illegible] weight [illegible] the proposition that the world is splitting into three powerful investment and trading blocs.

[illegible] implication is that international transactions are becoming increasingly dominated by [illegible] corporations. [illegible] trade, financial flows and technology transfer are converging on the pattern of foreign direct investment, making corporate investment a principal force in structuring the world economy, Mr Peter Hansen, CTC executive director, said.

[illegible] foreign direct [illegible] grew by 28.9 per [illegible] a year between [illegible] 1989, culminating in [illegible] in [illegible], [illegible] the [illegible] of foreign investment reached $1,500bn. [illegible] the same period exports increased by only 9.4 per cent a year while world gross [illegible] product averaged annual growth [illegible].

CTC [illegible] a remarkable acceleration in [illegible] second half of the decade when foreign investments by EC, US and Japanese companies averaged $105bn a [illegible] compared with an annual average of $44bn between 1980 and 1984. The 1985-89 figure excludes cross-border investments of $20bn a year among EC member states.

Japan's performance stands out. Its companies increased their foreign investments sixfold during the 1980s and are already spending more than US concerns. In two years between March, 1988 and March, 1990 Japanese investment flows to the EC were 13 per cent higher than their total transfers over the previous 36 years combined; to the US they were 8 per cent higher.

The global stock of Japanese [illegible] could [illegible] of the US in five to 10 years, CTC estimates. EC companies have already caught up with the Americans. The [illegible] role has changed dramatically; it is now the biggest recipient [illegible] foreign [illegible] investment, absorbing nearly [illegible] international investment annually since 1983.

Multinationals' [illegible] are [illegible] within [illegible] big triad – US, EC, Japan – which [illegible] than [illegible] the capital flows during the 1980s.

The [illegible] total investment going [illegible] developing countries tumbled from [illegible] per [illegible] in [illegible] first half [illegible] the 1980s [illegible] 18 [illegible] in the [illegible]ond half. Moreover, the Third World [illegible] was concentrated in 10 countries.

Major pressed to testify

Continued from Page 1

ence would be and when it would begin and conclude its work.

He said the investigation should be public with ministers' actions at every stage being fully explained.

"If the government fails to do this it will only fuel the suspicion that the inquiry was set up not to get to the bottom of the scandal but to deflect attention from the increasing embarrassment it was causing to ministers," Mr Hattersley said.

It was "intolerable", he added, that officials had been blamed for mistakes in what was a clear effort to get ministers "off the hook."

Today the government will again come under pressure because time has been allocated in the House of Commons to debate to the BCCI case. Mr Keith Vaz, the Labour MP heading the all-party depositors' support committee, will argue that Mr Major must have been aware of allegations of a BCCI link to terrorists through his position as head of Britain's security services.

Tomorrow, Mr Robin Leigh-Pemberton, the governor of the Bank of England, will face tough questioning from the powerful all-party Treasury and Civil Service Committee as to why action was not taken on the BCCI affair earlier.

Treasury officials have been working through the weekend to prepare the terms of an inquiry and to seek a suitable chairman. Labour is arguing that whoever is chosen must be fully independent of the government and the City of London.

Yeltsin bans cells

Continued from Page 1

in Leningrad, [illegible] up a neo-Bolshevik platform which is determined to rejuvenate the party along Stalinist lines.

At the other end of the spectrum, Mr Alexander Rutskoi, the Russian vice-president, has already decided to create a new breakaway party called Democratic Communists of Russia next month.

This will apparently affiliate itself to the Democratic Reform Movement.

[illegible] 16.5m strong Communist party [illegible] 2.4m members last year – a vivid illustration of its [illegible] popularity.

A split has threatened for [illegible] years, but has [illegible] far failed [illegible] materialise.

Cautious hope on UK economy

By Alan Pike in London

FLICKERING SIGNS that the rate of decline in the recession-hit UK economy may be slowing appear in two surveys published today.

[illegible] survey by the [illegible]tion of British Industry and the Financial Times of the distributive trades shows that there was no further worsening in retail [illegible] volumes between May and June, while wholesale [illegible] month fell at [illegible] slowest [illegible] this [illegible].

A separate survey, by the London Chamber of Commerce, points to the first slowing of economic decline in the capital's service sector since recession became apparent in mid-1990.

Both surveys show that industry [illegible] difficult conditions [illegible] continue [illegible] some time, and the London chamber [illegible] the [illegible] interpreted [illegible] results with caution. Ms Jacqui Ginnane, [illegible] London chamber's chief economist, said its survey findings were the first tentative indications that the recession was starting to bottom out. "This will not have a significant impact on employment growth in the capital until 1992."

Mr Nigel Whittaker, chairman of the CBI's distributive trades panel, said that with unemployment still rising sharply it "could well be some time before consumer confidence is restored" in spite of recent interest rate cuts.

The CBI survey shows that retailers expect a moderate pick-up in sales this month – but it also points out that growth in sales, anticipated [illegible] March, had not [illegible] fulfilled. This had made retailers "significantly [illegible] optimistic about the [illegible] forthcoming improvement." [illegible] unfulfilled expectations had led [illegible] a further build-up in stocks, which were already well above expected sales.

[illegible] volumes in wholesaling fell again in June but [illegible] the [illegible] since the [illegible] of [illegible] year. But [illegible] this month are [illegible] to remain well below the levels [illegible] a year [illegible].

The London chamber's evidence of some slowing in decline in the service [illegible] [illegible] not extend to [illegible] capital's manufacturing companies, however.

Inside information for outsiders

By Anthony Harris

Are we making too much of the BCCI affair? Yes, I'm afraid so. It's all too tempting. The details which are being leaked are juicy. Commentators can indulge in an orgy of hindsight. But outsiders have a different point of [illegible]. Most [illegible] them have never [illegible] BCCI; so far, they have noticed only a lot of arcane noise, and a distinctly nasty smell. They are puzzled, and probably rather bored; but the bad news for the City, as the Lord Mayor has pointed out, is that the smell is going to get thicker and nastier.

Even if the official inquiry clears everyone concerned in the actual bank shutdown, there will no doubt be litigation to follow; and even if this causes no casualties, questions will remain about the City's relation to its clients.

Take, for a start, the matter of information. As every television viewer has heard by now, "everyone" in the City has known for years that there was something fishy about BCCI. But how about those outside the City? (There are in fact ways of finding out, as we will see; but that too is the kind of thing that outsiders don't know.) Why did the Bank of England "authorise" a bank it was actively investigating? (There are reasons, but they are far too technical for the innocent to understand.)

And if it is conceded that much City information really is too specialist for the layman, what about those who placed their funds through money brokers, who are insiders by any definition? Why weren't they warned, as those who invested in US junk bonds were? (The brokers seem to imagine at the moment that if they keep quiet enough, everyone will forget about them. No such luck.) The only clear general impression is that the protection provided for investors and depositors is inadequate or worse.

The truth does not remove this suspicion. When I have explained to puzzled friends that, yes, they are protected as to 70 per cent of their deposits, up to £20,000, but in their own after that, they are simply horrified.

If you tell them that to gain them more protection would involve unacceptable "moral hazard", they simply get angry as well as frightened.

They are frightened, and this could easily spread beyond the foreign banks and small banks which are already losing deposits. Some friends have asked me whether they are safe in large clearing banks and building societies. If you explain that they are, because of systemic risk, you have a lot of subsequent explaining to do. Once they grasp the idea of "too big to fail", they simply suspect that the City's supervisors and self-regulators look after themselves and the system carefully, but only accidentally look after their customers.

Removing these fears will involve much more than clearing up [illegible] BCCI [illegible]. The whole thinking behind [illegible] financial reforms [illegible]

The "transparency" so prized by regulators and commentators is not much use if it looks to the innocent like a hall of mirrors

few years, which was supposed to open the markets, needs to be reviewed. The structure of banking supervision seems at the moment to be composed largely of loopholes. And we need to look at all the markets through the eyes of the innocent. The "transparency" so prized by regulators and commentators is not much use if it looks to the innocent like a hall of mirrors. Professional advisers don't look much help, either.

Lay investors and depositors need boundaries, or at least signposts. And they need information which does not need to be translated by a professional. The old boundaries, which defined trustee securities rather restrictively, and until recently limited the right to call yourself a bank, lessened the need for information, but they can hardly be restored in a single European market with no exchange controls. However, the US has managed to provide two very reassuring safeguards in a genuinely free market: effective deposit insurance and simple, reliable credit ratings which are in the public domain.

US deposit insurance looks like a disaster at the moment, especially in the savings and loan field – a living illustration of moral hazard. But there is no need to imitate the excessive coverage or the sloppy supervision which have made it so. On the contrary, it will be essential [illegible] instal [illegible] trustworthy coverage if the single European financial market is ever to be much more than a slogan; and that suggests that insurance must be [illegible] European scale.

The would-be [illegible] in Washington have already suggested most of the alterations required to [illegible] the US system sound. The most important are: something less than 100 per cent coverage; a limit on the total coverage offered to individual depositors; and a [illegible] insurance charges [illegible] to risk. Anyone designing a European system should have a [illegible] consultation with Mr William Seidman, [illegible] formidable [illegible] of the Federal [illegible] Corporation (so formidable [illegible] resisted White [illegible] attempt to replace him for years).

Credit rating is already available on this side of the ocean, but with three severe handicaps. Its coverage is very patchy; it is expensive if you want more than the bare AAA (or forbidding BCC); and few people seem to know that it exists. For their information, the main [illegible] rating agencies make their lists available free, though there is a charge for detailed reports; and our own [illegible] publishes, at quite a substantial [illegible], a list of all the main ratings, world-wide.

The coverage in Europe will become adequate just as soon as the European market [illegible] follow the US example, and demand it for the commercial paper and "investment grade" bond markets. This will also have the useful [illegible] of cutting the cost to information users. European companies will pay to have themselves rated, as US companies [illegible] wishing to tap the US markets – already do.

[illegible] companies are the beginning of a self-selected elite of banks and public corporations. It should grow; open markets are desirable, but nobody said they had to be classless.

WORLDWIDE WEATHER

		°C	°F			°C	°F			°C	°F
Ajaccio	S	28	82	Berlin	F	[illegible]	[illegible]	Caracas		–	–
Algiers	[illegible]	36	97	Biarritz	F	[illegible]	66	Casablanca	C	25	77
Amsterdam	S	20	68	Bombay	F	29	84	Chicago	C	26	79
[illegible]	F	32	90	Bordeaux	S	27	81	[illegible]	C	17	63
Bahrain	S	[illegible]	[illegible]	Boulogne	F	18	64	Copenhagen	C	16	61
[illegible]	F	0	0	Brussels	F	20	68	Corfu	[illegible]	31	88
[illegible]	S	31	88	Budapest	G	27	81	Dallas	S	26	79
Beirut		–	–	Buenos Aires		–	–	Dublin	C	16	64

		°C	°F			°C	°F			°C	°F
Faro	S	23	73	Islamabad		–	–	Madeira	F	24	75
Florence	S	32	90	Istanbul	S	29	84	Madrid	S	29	84
Frankfurt	C	22	72	Jakarta		–	–	Majorca	[illegible]	36	97
Geneva	S	28	82	Jersey	C	17	63	Malaga	S	29	84
Gibraltar	S	28	82	Johannesburg	S	18	65	Malta	F	27	81
Glasgow	F	18	64	Lima	[illegible]	–	–	Manchester	G	18	64
Helsinki	F	18	64	Lisbon	[illegible]	[illegible]	77	Manila		–	–
Hong Kong	F	30	86	London	[illegible]	20	68	Melbourne	S	12	54

		°C	°F			°C	°F			°C	°F
Milan	F	31	88	Nicosia	S	28	82	Salzburg	F	22	72
Montreal	R	23	73	Oporto	F	21	70	San Francisco	C	14	57
Moscow	F	[illegible]	72	Oslo	[illegible]	22	72	Seoul	R	24	75
[illegible]	F	21	70	Paris	F	22	72	Singapore	S	31	88
[illegible]		–	–	Peking	C	28	[illegible]	[illegible]	F	18	64
Naples	[illegible]	30	86	Prague	R	16	61	Strasbourg	F	[illegible]	73
Nassau		–	–	Reykjavik	R	15	59	Sydney	S	[illegible]	[illegible]
New Delhi	F	34	93	Rhodes	S	30	86	Taipei		–	–

		°C	°F
Tenerife	C	25	77
Tokyo	S	33	91
Toronto	F	24	75
Tunis	[illegible]	32	90
Valencia	S	31	88
Venice	S	23	73
Vienna	F	24	75
Warsaw	F	21	70

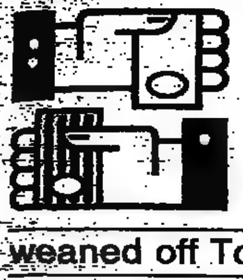
Temperatures at midday [illegible] C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail [illegible] T-Thunder

FINANCIAL TIMES SURVEY

INTERNATIONAL CAPITAL MARKETS

SECTION III

Monday July 22 1991



A huge drop in the flow of Japanese capital means that hungry companies and nations must be weaned off Tokyo's money – at a time when savings around the world are in short supply. Financial institutions face a new round of changes. Richard Waters reports

Reforms are long overdue

ITS DEMISE was as sudden as its emergence. The flow of Japanese [illegible] capital, which had driven international financial markets for much of the 1980s, was largely turned off last year. After the years of plenty, capital markets had entered the new decade with a bump.

The scale of the turnaround has been significant. Investments in foreign bonds and *equities by the Japanese fell to* just $40bn in 1990, from $113bn the year before.

At the same time, Japanese banks' share of new international bank lending (in dollar terms) dropped from 36 per cent to 19 per cent.

Leaving aside the effects of exchange rates, new lending by Japanese banks was only [illegible] third its level of the previous year.

[illegible] which had helped to keep securities prices up and loan costs down had suddenly been removed.

Two factors lie behind [illegible] sudden shift. First, high Japanese interest [illegible] made US Treasury bonds [illegible] attractive to Japanese investors.

Second, the reverberations of the [illegible] Tokyo [illegible] market fall – and its effect on the capital of Japanese banks and the [illegible] of Japanese investors – are still likely to be felt for some time to come, even if Japanese share prices fall no lower.

The growing propensity of the Japanese to spend more and save less, as well as just to get older, also means that Japanese savings will become a less powerful force in the world financial markets.

Weaning capital-hungry *nations (and companies)* [illegible] Japanese money will not be easy – particularly at a time when savings around the world are in short supply.

For 30 years, savings rates have fallen in most developed countries.

The British and Americans are famous for their inability to save. In the UK during the 1980s, net savings amounted to 5.5 per cent of national income; half the proportion of the 1960s. In the US, the fall was steeper, from 11 per cent in the 1960s to just 4 per cent.

This trend was echoed elsewhere in different degrees. The Germans, who put aside 20 per cent of their income during the 1960s, managed to save only 11.6 per cent during the 1980s. The Japanese [illegible] rate fell from 25.2 per [illegible] to 20.9 per cent over the [illegible] period.

The demand for capital, meanwhile, is set to increase. New investment in Eastern Europe, the rebuilding of Kuwait, the continuing needs *of developing countries, and* investment by companies as the US and UK come out of recession – all point to a strong demand for capital in the medium term.

One other factor has made investment capital more difficult to come by. Banks around the world, but particularly in the US, are smarting from the knocks they have taken on real [illegible] lending and highly geared transactions.

At the same time, they are working towards the full implementation by 1993 of the minimum capital adequacy standards laid down by the grouping of central bankers meeting under the auspices of the Bank for International Settlements in Basle.

The result: claims of a "credit crunch" as any but top-grade borrowers find it increasingly difficult to raise money from their bankers.

In the longer term, the capital adequacy rules are unlikely to affect the supply of good credit.

As the BIS says in its latest annual report last month: "There may indeed now be a greater awareness of the capital ratio implications of portfolio decisions, but that is precisely what was needed.

"It could lead to longer-term problems of credit availability only if circumstances were to deny a large number of banks access [illegible] additional capital, which is only conceivable if bank [illegible] remain [illegible] severe pressure over a prolonged period."

[illegible] statements, however, will give little comfort to bank customers which need credit now if they are to have any kind of long term future to look forward to.

As implied in the BIS's report, the financial industry itself is set for a prolonged period of consolidation. During the 1980s, deregulation and the ready availability [illegible] credit led to a drive by financial intermediaries for growth and [illegible] *share. Now,* [illegible] *has* [illegible] to profitability and consolidation.

Profitability in both the banking and securities industries is in serious need of repair.

The return on assets of US banks in 1990, for example, halved to 0.78 per cent (excluding the effects of provisions against ldc loans). Japan's city banks, meanwhile, experienced a decline from 0.82 per cent to 0.58 per cent.

Two months ago, Mr Gerald Corrigan, president of the Federal Reserve Bank of New York, told the US senate committee on banking, housing and urban affairs: "Whether we like it or not, we are going to see an important degree of consolidation in the US banking and financial system. That result, as I am prone to say, is already baked in the cake."

Several weeks later, the biggest planned banking merger in recent US history was announced: [illegible] combination of *Chemical Bank and Manufacturers Hanover* to create the country's second largest banking group.

In Japan, such mergers have been underway for longer, since the creation of Dai-Ichi [illegible] Bank, [illegible] country's largest.

In the securities industry, the damage to recent profits has been greater. Japan's big four brokers suffered falls in pre-tax profits last year ranging from 52 per cent (Nomura) to 72 per cent (Nikko).

New York Stock Exchange members slipped to a combined $128m loss, their worst performance since 1973 and members of the London Stock Exchange sustained a combined loss of £350m.

While this year has brought better news, the continuing uncertainty in securities markets and few outright withdrawals by securities houses suggests that [illegible] cutting and [illegible] will follow.

[illegible] they [illegible] from the deregulation and excesses of the 1980s, meanwhile, [illegible] financial institutions can look [illegible] (if that [illegible] the right phrase) to a new round [illegible] change.

In both the US and Japan, long-awaited initiatives have been launched which could lead to the ending of divisions between the banking and securities industries.

In both countries, commercial banks have been allowed progressively into the securi[illegible] business, through the establishment [illegible] full-service securities subsidiaries abroad and the admission to restricted classes of securities business at home.

The final step will be the biggest: allowing commercial banks into the underwriting and broking of domestic issues – although even here, the barriers have started to come down.

Neither country looks likely to [illegible] rapidly [illegible] *reform of their respective laws,* despite the pleas of reformers. Mr Corrigan of the Fed has argued that the future competitiveness of the US banking and financial system depends on "the necessary [illegible] of consolidation, cost reduction, and diversification."

The recent financial scandals [illegible] Japan's leading stockbroking firms [illegible] point [illegible] the need for deep-seated reform [illegible] country's financial system. The display of public remorse that accompanied the admitted links with gangsters and the compensating of favoured clients for stock losses suggested that the Japanese brokers were keen to change their ways.

It remains to be seen whether anything has changed – or whether it will take more profound structural developments in Japan, such as the ending of minimum commissions and the development of a strong, independent fund management industry, to bring about lasting change.

To quote Mr Corrigan, commenting on the US: "Prompt and comprehensive reform of the banking and financial system is long overdue."

IN THS SURVEY

Government bonds: International [illegible] [illegible] benefited from [illegible]opments in the global markets: deregulation [illegible] opened [illegible] arenas and bondholders [illegible] found [illegible] even [illegible] silver lining to a [illegible]

New technology: [illegible] the [illegible] towards electronic [illegible] places, the trading floor – spiritual home of the capital mar[illegible] – [illegible] not outlive the decade ....[illegible] 2

International markets: Companies worldwide [illegible] turned [illegible] the equity [illegible] again [illegible] raise new capital [illegible] global financial [illegible] regained some stability [illegible] the Gulf war

Derivatives: [illegible] deriva[illegible] have become more common, competition among the [illegible] that trade them [illegible] grown. The competition has [illegible] spawned co-operative alli[illegible] ....Page 3

Regulation: Everyone [illegible] on [illegible] for greater international [illegible]ordination [illegible] guard against [illegible] systemic collapse in securities [illegible]kets. But finding an international [illegible] is not [illegible]

Securitisation: European [illegible] is a market much tipped [illegible] growth, [illegible] the surge [illegible] activity predicted by proponents of the market [illegible] yet [illegible] [illegible] ....Page 4

Emerging markets: While the [illegible] markets [illegible] [illegible] developed world have [illegible] many emerging [illegible] are forging [illegible] ....Page 5

[illegible] *production:* [illegible] *Sanders*

INTERNATIONAL CAPITAL MARKETS 2

Richard Waters looks at the implications of new technology

Farewell to the trading floor as markets plan automation

INTERNATIONAL markets are disembodied markets. The result, as capital has become more international is a move towards [illegible] market [illegible] to bring together providers and [illegible] of investment money. The spiritual home of the capital markets – the trading floor – may not outlive the decade.

On both sides of the Atlantic, market automation is being planned on a large scale. It is both defensive and aggressive.

Old trading practices, subjected to competition for the first time, [illegible] being [illegible] hauled.

Europe already has an international equity marketplace. Ironically, it is among the most low-tech of all capital markets

New opportunities, as [illegible] panies [illegible] raise money internationally (and [illegible] invest it), [illegible] being exploited.

Europe already has [illegible] international equity marketplace. Ironically, it [illegible] among [illegible] low-tech of all capital markets.

The UK's telephone-based share market, supported by the Seaq International price display system, traded £147bn of foreign equities last year, up from £85bn the year before and £40bn in 1988. These figures exaggerate the real growth rate: market users did not have to report trades to the London Stock Exchange until two years ago. About two thirds of the turnover is related to European stocks.

Seaq International may have attracted business, but it is not the final word in cross-border, automated dealing.

The system, launched on a shoestring budget six years ago, needs a complete revamp. It also needs to offer its users more than simply a view of quoted prices of other market users – for example trade confirmation and links into cross-[illegible] settlement [illegible].

If [illegible] International has offered Europe a vision of the future shape of the cross-border equity markets, then continental Europe has seemed very slow to pick up on the idea.

The progress towards [illegible]nomic and monetary union, and the abolition [illegible] trading and other barriers within the EC, suggests that equity investors will come to view the Community as [illegible] single investment market. National bourses [illegible] so [illegible] failed to agree on a single trading infrastructure to support this market.

In part, this is because the idea is before its time. Market users are not yet demanding a better international marketplace.

Some sophisticated fund managers and brokers actually prefer fragmented, inefficient markets: it gives them more of a chance to make a living, using their skills to pick out the investment and arbitrage opportunities others miss.

As long as they can pass on the extra costs of doing business internationally through specific charges to their customers (as many fund managers do), there is little pressure on them to demand a better market infrastructure.

Another powerful force against co-operation between national [illegible] competing ambitions of different European financial centres.

The US faces similar upheaval to Europe as its stock markets take on domestic and international competition

For 18 months, talk of co-operation veiled only thinly the competition that has really [illegible] driving [illegible] developments.

When joint venture talks between the national bourses were put back to square one this summer, it was no surprise to find national stock market initiatives emerging rapidly to fill the vacuum. The likely result: trading floors, where they still exist, will be superceded by electronic marketplaces.

Within [illegible] weeks, [illegible] Frankfurt [illegible] Exchange [illegible] an [illegible] bring [illegible] the federal German exchanges under [illegible] national bourse, with [illegible] new infrastructure to support the market.

In Paris, French [illegible] ket professionals [illegible] been pressing for an overhaul [illegible] trading practices [illegible] their bourse compete internationally.

And in London, a strategic rethink of the national [illegible] market [illegible] completion.

The [illegible] York Stock Exchange and American Stock Exchange have moved [illegible] opening for longer hours

Grand talk of international co-operation and harmony is unlikely to recur for some time.

If the development of a pan-European market infrastructure has come to nothing, then the same is true of a plan to link the trading markets of Europe and the US, courtesy of the London Stock Exchange and the National Association of Securities Dealers (NASD).

The NASD's quote-driven market, Nasdaq, was the model for London's Seaq system, and both are now in [illegible] of rebuilding. However, [illegible] on co-operation to develop a common technological base – perhaps leading to a joint [illegible]tional equity market – fell through this [illegible].

[illegible] similar upheaval to Europe as its stock markets take on the challenge of competition, [illegible] and international. [illegible] is being [illegible] in [illegible].

In the short-term, [illegible] day [illegible] being extended – electronically – by floor-based exchanges which fear they are losing ground to competing electronic markets.

Both [illegible] New York Stock Exchange and American Stock Exchange have moved towards opening earlier in the day and closing later. The extra business they hope to win will not be channelled through specialists, the people who oil the wheels of the floor-based trading mechanisms, but will be managed electronically.

In the longer term, both markets – and the NASD – plan to open throughout the European trading day. Full-scale, 24-hour trading without the use of market floors is on the horizon. If these initiatives are a success – and offer cheap, efficient dealing for investors – what future can there be for the trading floors during the US trading day?

The increased competition between equity markets is mirrored in derivative markets. The result, predictably, has been the same: a plethora of grand plans for 24-hour electronic trading systems. Many may never be built, or will fail to generate enough business to justify their investment. But the pace of development seems unstoppable.

It is too early to say whether these developments will work to the advantage of market users. To the extent that they create new opportunities for raising money or investing it more effectively, they will be welcome. But they also present new problems for regulators which are a long way from being solved.

For a start, fans of floor-based markets complain, trading floors provide the best possible price-setting mechanisms, which cannot be replicated electronically.

That may have been true as long as trading floors remained the centre of trading activity, helping to concentrate orders and so achieve the bestprices [illegible] with an increasing [illegible] of [illegible] done [illegible]-exchange, the argument for trading floors is weakened.

A second (and more telling) complaint is that the multiplication of electronic trading systems, and the lack of transparency in [illegible] markets, makes it difficult [illegible] ensure that investors get the best deal – particularly small investors. Regulators are only beginning to grapple with this problem.

Traders at the Tokyo stock exchange: international investors have a growing number of government [illegible] markets

■ GOVERNMENT BOND MARKETS

International investors find a silver lining

INTERNATIONAL [illegible] developments [illegible] the global government bond [illegible] two reasons. First, [illegible] of deregulation [illegible] globe, international [illegible] found [illegible] number [illegible] government [illegible] markets.

Secondly, bondholders recognise that there is [illegible] silver lining to [illegible] recession as [illegible] rates are [illegible] in order to stimulate the economy. Bond prices rise as interest rates fall, thus providing investors with capital gains.

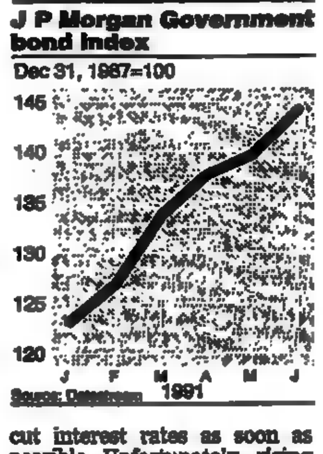
After Iraq's invasion of Kuwait last August, the sharp rise in the oil price prompted fears that inflation in the western economies would rise. Bond prices rose and long-term yields increased by between 50 and 150 basis points for the main bond markets.

However, the fears proved short-lived: "interest rates remained stable during the fourth quarter in Germany and Switzerland, eased in Belgium and France, and fell sharply in the US, Japan and UK" says the Bank for International Settlements in its 61st annual report.

The fall in interest rates continued in the first quarter of this year and many of the leading industrialised countries have emphasised the need to lower interest rates further.

However, Germany remains the odd man out. When representatives of the Group of Seven leading industrialised countries met in Washington in April, the US put considerable pressure [illegible] Germany to cut interest rates as soon as possible. Unfortunately, rising inflation in Germany has led to concern that the Bundesbank may be forced to raise interest rates, or at least to hold interest rates at a high level until inflation starts to fall.

J P Morgan Government bond index



Source: Datastream

Germany aside, [illegible] other members of the Group of Seven main industrial countries emphasised the need to lower real interest rates and promote world growth at the Washington meeting and this trend seems likely to continue, albeit at a slower rate.

Even Japan, which has held interest rates at historically high levels in order to curb inflation, cut the Official Discount Rate from 6 per cent to 5.5 per cent at the beginning of July.

The fall in interest rates over the past nine to 12 months has led to a surge in certain bond markets, providing international investors with capital gains on their bond portfolios.

Today, those bond portfolios [illegible] likely [illegible] consist of a far [illegible] of [illegible] more government [illegible] markets [illegible] opened up and courted foreign buyers.

For example, both Spain and Italy deliberately increased their appeal to foreign buyers by extending their debt maturity profiles and easing procedures for foreigners to reclaim withholding tax on government bonds.

These [illegible] important changes: foreign [illegible] like [illegible] be [illegible] to [illegible] in long-[illegible] than [illegible] withholding [illegible] In many cases they had [illegible] deterred from participating in the Spanish and Italian bond markets [illegible] the [illegible] governing the reimbursement [illegible] withholding [illegible] non-resident [illegible] complicated and lengthy.

Investors have been attracted [illegible] both the Italian and Spanish bond [illegible] the past nine to 12 months because [illegible] their high yields. [illegible] have fallen as interest rates have come down, but are expected to fall further.

Many international investors have been piling into the high-yielding European bond markets because they expect to see the convergence of interest rates in Europe. for those currencies which are members of the Exchange Rate Mechanism of the European Monetary System.

In the long term, monetary [illegible] within Europe [illegible] ted to force bond yields towards [illegible] of Germany, [illegible] mainstay of the European monetary system.

The attraction of investing in a currency which is in the exchange rate mechanism of the EMS is that the exchange rate risk for a European investor is greatly reduced, while the investor can still expect to see bond yields fall and make a capital gain on the investment.

However, the convergence argument [illegible] its problems – short-term movements in the opposite direction do occur, as was seen recently in France. There, worries about the appointment of Mrs Edith Cresson as prime minister unsettled the bond market and led to a sharp rise in French government bond yields.

Investors have been attracted to both the Italian and Spanish bond markets

As more and more [illegible]ment bond markets have opened up to foreign investors, the demand [illegible] detailed research has increased: now investors as diverse as Japanese bond fund managers and European pension fund managers want research on markets including Spain, Italy, Scandinavia, Portugal, Belgium and [illegible] such indeveloped [illegible] as Greece.

With these second-tier countries, investors try [illegible] advantage of the market's inefficiency when it comes to taking economic and financial data into account. The hunt for high-yielding markets continues.

Sara Webb

Tracy Corrigan examines the growth of the Ecu bond market

European governments help transformation

THE [illegible] bond market [illegible] a small retail-[illegible] market, driven by swap opportunities, to a widely-traded institutional market which may be set to become the largest European debt market later this decade.

In the past 10 years, the outstanding amount of Ecu bonds has grown from Ecu250m to Ecu70bn, according to JP Morgan.

Secondary market turnover through the European clearing houses [illegible] and [illegible] reached nearly Ecu100bn in March. In [illegible] of this year, the volume of new issues in the sector rose to more than $21bn equivalent – more than double the volume during the first half of last year – to become the second most active currency sector in the Eurobond market.

European governments, keen to demonstrate their political commitment to the currency, have been a catalyst for the market's transformation.

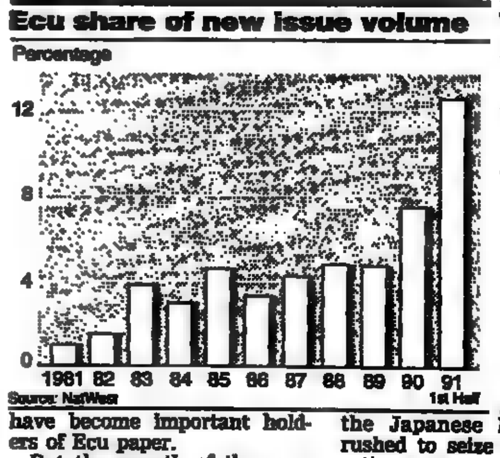
The UK government [illegible]de a successful debut [illegible] issue in February. France, Italy, Belgium, Denmark, Finland, Norway, Sweden, Spain, Greece, and supranational institutions such as the European Community and the European Investment Bank, have all tapped the Ecu bond market.

Many deals were not swapped, as swap market rates were not favourable, and most issuers are borrowing in Ecus more for political than practical reasons.

In the past, most borrowers had no requirement for Ecu funds, but they were able to swap Ecu funding into another currency at attractive rates – often through swaps generated by the Italian government's domestic Ecu issuance.

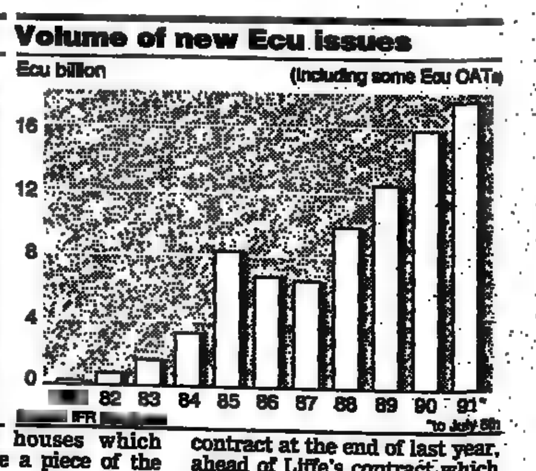
Such sovereign and supranational borrowers command a broader audience for their transactions because they are strong credits and issue in large volumes. Central banks have become important holders of Ecu paper.

Ecu share of new issue volume



Source: NatWest

Volume of new Ecu issues



Source: IFR [illegible]

But the growth of the market has been outstripped by the eagerness of banks to take a share of the action; the sector is already overbroked. The Association [illegible] International Bond Dealers says the number [illegible] reporting dealers in [illegible] grown from [illegible] a year ago to 36 currently.

This rush for business may appear surprising, considering the widespread awareness that profitability will be hard to achieve. But many firms view [illegible] market as one [illegible] they cannot afford not to have [illegible] presence, [illegible] nomic and political significance if European monetary union [illegible] ahead.

Bankers say that [illegible] gain a substantial [illegible] at [illegible] stage [illegible] development would require a very [illegible] commitment. But several [illegible] market makers [illegible] name only: about 15 houses are consistently active, [illegible] the [illegible] tend to remain on the sidelines. The new issues market is dominated by fewer than 10 houses.

[illegible] houses may be able to find some profitable niche business. For example, most Japa[illegible] houses appear to be concentrating [illegible] distribution of Ecu products in [illegible]. But dealers say [illegible] the Japanese houses which rushed to seize a piece of the action are now marking time.

Nevertheless, liquidity has advanced dramatically and benchmark [illegible] for the UK, the EIB and Italy, [illegible] well as [illegible] French government's Ecu Obligations Assimilables du [illegible] (OATs) [illegible] extremely liquid, and can [illegible] used for "repos" (repurchase agreements, used for short-term borrowing and lending to cover positions).

Such issues trade on a 10-basis point spread between bid and offer prices; in [illegible] deal such [illegible] the UK's Ecu2.5bn issue, trades of Ecu25m can be conducted [illegible] 5-[illegible] point spread, dealers said.

But the market has been relatively quiet in recent weeks as the Ecu bond market looks quite expensive, in spread terms, against the French and German bond markets.

The market also appears costly against the synthetic yield curve – calculated by studying the yields of component currency bond markets. Dealers can create exposure to the Ecu synthetically, by buying component markets.

Ecu bond futures contracts are now traded on two European exchanges; the Matif in Paris and Liffe in London. The Matif gained a competitive advantage by launching its contract at the end of last year, ahead of Liffe's contract which started in March. The Matif traded an average of 2,700 contracts daily in June, compared with 400 contracts on Liffe (but the Liffe contracts are twice as large).

The growth of derivative products in Ecus has helped boost liquidity, providing sophisticated tools in a market which has historically been difficult to hedge.

Liffe also has a three-month Ecu contract which traded an average 712 contracts daily in June. In the over-the-counter market, there are forward rate agreements in Ecu.

Activity in Ecu money markets has expanded substantially in the past year. Interbank deposits ranging from overnight to 12-months, and CD rates are quoted by big banks, and the UK and Italian governments issue T-bills.

Paribas and JP Morgan each have an index of liquid Ecu bond issues which portfolio managers can use to measure the performance of the market, and also as the basis for index warrants and other products.

The formidable growth of the Ecu bond market has prompted many fund managers to hold increasing portions of their portfolios in Ecus, so the need for tools to measure their performance is increasing.

INTERNATIONAL CAPITAL MARKETS

There are reasonable grounds for optimism among intermediaries, writes Simon London

Eurobond market of feasts and famines

FIRMS active in the Eurobond market continue to operate in a market characterised by feast and famine. Periods of intense new issue activity are still interspersed with periods when few bond syndicates are covering even their fixed costs.

The longest recent period of famine came ahead of the Gulf conflict, which caused institutional investment decisions to be postponed. Yet despite this period [illegible] paralysis, [illegible]ssion and an expectation [illegible] lower interest [illegible] in many [illegible]tries [illegible] made bonds [illegible] on cyclical grounds. Once the threat of a large-scale regional conflict was seen to recede, the supply [illegible] new paper and demand from investors both began to recover.

Hence the first six months of this year have been profitable for most intermediaries operating in the primary market. The volume of new issues grew 50 per cent, from just under $80bn in the first six months of 1990 to $121bn in the first half of this year.

In addition, the Eurobond industry has achieved [illegible] structural improvements which leave it better positioned [illegible] benefit when new issue activity [illegible] strong.

There has [illegible] a concerted and co-ordinated effort to restore commissions, through the use of the fixed-price re-offer mechanism. The diminishing number of players in the primary [illegible] partly relieved chronic overcapacity.

> **There has been a concerted effort to restore commissions, through the use of the fixed-price re-offer mechanism. The diminishing number of players in the primary market has partly relieved chronic overcapacity**

However, many of the smaller firms see hidden dangers in the process which has restored intermediaries' profit margins. One of the most common themes [illegible] around Eurobond houses is that power is concentrated in the hands of fewer firms.

One view is that each currency sector of the market is the subject of "cartelisation" by the big players, which is squeezing out smaller firms.

There are informal agreements among the main players in the dollar, Ecu and sterling sectors of the market as to the appropriate levels of return on new issues. Leading houses have often declined to participate in deals which were seen to carry too thin a level of fees.

In addition, the establishment of the fixed price re-offer mechanism is often seen to favour firms with strong institutional placement power. [illegible] firms prefer to sell bonds [illegible] issue price, retaining full fees as profit, rather than selling at the lower fixed re-offer price set by the lead manager.

Since its introduction into the Eurobond markets from the US in 1989, the fixed re-offer method of syndication has been extended to new areas of the market. For example, the Eurolire bond market has become increasingly dominated by big institutional investors and the fixed price re-offer mechanism has become established as the normal method of syndication.

New issue statistics suggest that there has been a [illegible]tration of power over the past six months.

An analysis of [illegible] issues, excluding equity-linked transactions, in the first six months of the year showed that the top five Eurobond firms took 37.5 per cent of all new business by value. This compares with 27 per cent in the whole of 1990 and 29 per cent in 1989 and 31 per cent in 1988.

Equally, [illegible] top [illegible] firms took 55 per cent of new business in the first half of this year, against 43.5 per cent in 1990 and 49 per cent in 1989.

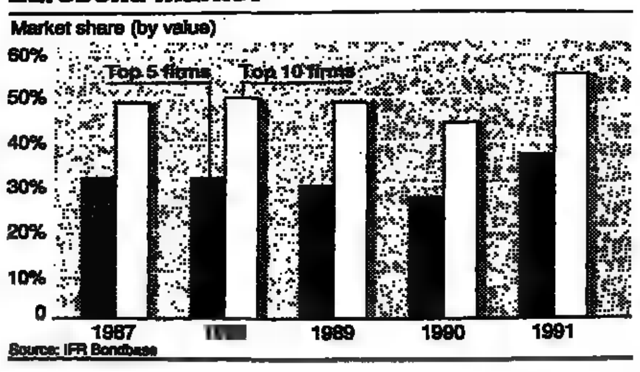
These figures do [illegible] that the balance of power shifted in favour of a few big firms. However, the statistics may be skewed by the dominance of big, liquid bond issues by sovereign and supranational investors in the first three months of the year. Recently, smaller corporate borrowers have returned to the market, spreading business among more firms.

Hence, the evidence in favour of cartelisation is, as yet, inconclusive. Only time will tell whether the dominance of the big firms will be consolidated – or eroded as a greater diversity of borrowers enter the market.

Even among the biggest firms, competition is intense. Nowhere is this more true than in the Ecu sector, which has continued to develop rapidly. New bond issues totalled $21bn in [illegible] first half [illegible] this [illegible] $10.7bn in the same period of 1990. In the first quarter, the aspiring single European currency came close to squeezing out the dollar as the favourite of the international bond market. However, there are now 36 firms making markets in Ecu bonds, against 24 firms a year ago.

Eurobond market

Market share (by value)



Source: IFR Bondbase

But whether the market is suffering from creeping cartel[illegible] or entrenched overcompetition, many firms have turned in a profitable first half to the year. From April there was a notable return of companies to the international bond market as investors sought higher-yielding assets.

The asset-backed bond market has also seen something of a revival following a period when the fear of default on underlying consumer loans deterred many investors.

"Greed has finally overcome fear," commented one issuer of asset-backed securities.

The equity-linked sector has been excluded from the figures above because the sector continues to be dominated by equity warrant issues by Japanese companies, lead managed by the big four Japanese securities firms – Nomura, Daiwa, Yamaichi and Nikko. However, equity-linked business is booming with a torrent of new issues from Japanese issuers matched by some notable issues by European companies.

Deals such as a £500m convertible issue by Hanson and a $1bn warrant deal by Roché, the Swiss pharmaceuticals group, demonstrated that the international bond market could provide European borrowers with a cheap source of equity-linked finance.

In addition, new areas of straight Eurobond business have been opened up. [illegible] example, the convergence of interest rates within the European Community helped fuel demand for Eurolire, Spanish peseta, Finnish markka and Portuguese escudo bonds. In the first half of the year, the volume [illegible] lira-denominated Eurobonds [illegible] to $4.75bn equivalent, from $2.5bn in the same period of 1990.

Hence there are reasonable grounds for optimism [illegible] intermediaries in the Eurobond market. The one worry is that new issue volume is highly sensitive to external shocks. The feast of the first half of the year could easily turn once again into famine.

INTERNATIONAL EQUITY MARKETS

Worldwide search for new capital

COMPANIES worldwide have turned to the equity markets again to raise new capital as world financial markets regained some stability [illegible] the Gulf war.

There are two reasons why companies have turned to the international equity [illegible]. First, many companies are keen to pay off short-term debt and reduce their [illegible] by issuing shares. Second, some companies have widened their foreign [illegible] international share offerings.

> **Companies embarked on a 'feeding frenzy' in the equity markets, according to one syndicate manager**

In the first half of 1991, total [illegible] equity [illegible] amounted to [illegible] worldwide, of which $4.78bn were initial public offerings (IPOs), according to figures supplied by International Financing Review (IFR). By comparison, total international [illegible] issues amounted to $8.5bn in the first half of 1990, of which $4.08bn were IPOs. The level of international equity issues in early 1990 suggested renewed [illegible] in the [illegible] following [illegible] 1987 world [illegible] market crash and the nervousness in 1988 and 1989.

However, Iraq's invasion of Kuwait in August 1990 and the recession in the Anglo-Saxon economies deterred many companies from turning to the equity markets for new capital. As a result, in the second half of [illegible] international equity issues amounted to [illegible] of which $1.68bn were IPOs.

However, when uncertainties in the Middle East were resolved, "companies embarked on a feeding frenzy in the equity markets", says one syndicate manager, with issuances flowing from the US, Europe and Asia.

INTERNATIONAL EQUITY ISSUES

	Total issues $m	IPOs $m
Mexico	1944.04	1907.50
Hungary	60.17	0
Indonesia	51.88	51.88
Korea	200.00	100.00
Singapore	44.68	0
Thailand	92.42	72.40
[illegible]	37.00	0
Canada	283.38	[illegible]
United States	2849.50	[illegible]
Denmark	225.81	0
Norway	121.48	121.48
Austria	349.04	64.68
France	816.07	144.88
Greece	25.77	25.77
Ireland	12.00	12.00
Netherlands	47.66	0
Spain	35.56	35.56
United Kingdom	1838.48	1838.48
TOTAL	8734.94	4780.22

Source: International Financing Review

Much of the activity has been in the US where international equity issues amounted to $2.85bn in the first half of [illegible], with [illegible] in IPOs and $467m in secondary issues (in which shareholders sell part or all of their shareholdings to [illegible] in widen [illegible] company's ownership).

"[illegible] companies saw a window of opportunity once the Gulf war ended for raising equity to pay off their short-term debt," says one syndicate manager. Many [illegible] had been in the pipeline when the Middle East [illegible] erupted and had been "put on hold" until a suitable occasion arose. But US business from top-rated companies is [illegible] to show signs of slowing down, according to syndicate managers, although second tier and lower quality companies are still tapping the markets.

In the first six months of [illegible], international equity issues from western Europe amounted to $2.5bn of which $2.12bn were IPOs, as companies in the UK, Austria, Spain and France tapped the international appetite for shares. Syndicate managers report a spate of rights issues, convertibles and bonds with warrants in the first six months of 1991, [illegible] companies such as Assurances Générales de France ([illegible]), Cap Gemini Sogeti, and Elf Aquitaine [illegible]. In Spain, Banco [illegible] Santander issued convertible [illegible] into the international market, while in Austria OMV, the national oil company recently launched an international rights issue.

UK [illegible] embarked on a flurry of rights issues as soon as the Gulf War ended, taking advantage of the stock market rise to [illegible] their balance sheets and reduce gearing. Mirror Group Newspapers, the UK newspaper publisher controlled by Mr Robert Maxwell, offered 40 per cent of the shares in its recent flotation to [illegible] international investors.

> **There have been issues, mostly of convertible bonds, from Indonesia, South Korea and Taiwan**

While syndicate managers expect European companies to continue to attract international investors, some believe attention is likely to [illegible] more on the US than on Europe [illegible] the next [illegible] months.

Meanwhile, the emerging "tiger" markets of the Far East have [illegible] international investors for years, in spite of the limited [illegible] foreign investors have to [illegible] markets. In the first six months of [illegible] year, there [illegible] been [illegible], mostly of convertible bonds, from Indonesia, South Korea, Taiwan and Thailand.

The advantage of a convertible bond is that even in markets such as Indonesia where foreigners are [illegible] to [illegible] directly in the underlying equity, convertibles [illegible] the settlement problems sometimes [illegible] in [illegible] markets [illegible] they are cleared through the Eurobond clearing houses, Cedel and Euroclear.

Indonesian companies such as PT Astra, a diversified group which is the largest publicly-traded company in the [illegible], and Indocement, the cement group, have issued convertibles this year.

While South Korea recently announced that foreigners will be allowed to invest [illegible] in [illegible] ([illegible] some think may reduce the attraction of issuing convertible bonds in future), the same is not true for Taiwanese [illegible], some of which have been active in issuing convertibles, in spite of the fact that foreign investors have no guarantee that they will be able to convert into the underlying equity at a future date.

As investors scan the horizon for new opportunities among the emerging [illegible], they are already starting to look more closely at south and [illegible] America, especially since Mexico has embarked upon an important privatisation programme, and it [illegible] likely that [illegible] equity offerings from this region will increase in future.

Sara Webb

TOP [illegible] UNDERWRITERS

	Amount ($m)	%
Goldman Sachs	2775.19	31.77
[illegible] Group	1281.53	14.67
Salomon Brothers Inc	620.27	7.10
[illegible] International [illegible]	541.07	[illegible]
S G Warburg Group	[illegible]	4.59
Merrill Lynch	[illegible]	4.12
Daiwa Securities	353.78	4.05
Paribas	334.42	3.83
Morgan Stanley	300.41	[illegible]
Shearson Lehman Bros Holdings	291.15	[illegible]
Canadian Imp Bank of Commerce	182.94	[illegible]
Donaldson Lufkin & Jenrette	165.42	1.89
[illegible] Bank of [illegible] Dominion	123.43	1.41
Lazard Freres	86.66	[illegible]
Bank of Montreal	84.62	0.97
[illegible] Peabody	77.42	0.89
PaineWebber Incorporated	70.62	[illegible]
Instituto Mobiliare Italiano	64.68	0.74
Deutsche Bank	55.59	0.64
Credit Lyonnais	42.29	0.48
National Westminster Bank	39.88	0.46
[illegible] Securities	36.05	0.41
[illegible]	35.56	0.41
Schroders	25.77	[illegible]
Swiss Bank Corporation	20.92	[illegible]

Source: International Financing Review

DERIVATIVES

Competition grows fiercer and spawns new alliances

AS derivatives have become a more common financial tool, the competition among the exchanges that trade them has grown fiercer. But the competition has also spawned a new set of co-operative alliances, especially in the US, where financial futures began.

With the greater threat of international competition in mind, the Chicago Board of Trade and the Chicago Mercantile Exchange, the world's two largest futures exchanges, have set aside much of their traditional rivalry to co-operate in several new ventures.

The most ambitious of these is Globex, the worldwide electronic after-hours trading system under development in partnership with Reuters Holdings, the UK-based information company. Globex's launch has been postponed numerous times over the past two years and it now looks as if the system is unlikely to get off the ground until 1992. When it does, however, it promises to break new ground for round-the-clock and round-the-world electronic transactions.

The Chicago exchanges have also been jointly developing a hand-held electronic trading card. After spending some $6m together on the project, the first of three prototypes is about to start floor tests this month.

The gizmo, just larger than a standard-sized Sony Walkman and called "Audit", was designed to provide crystal clear audit trails for trades.

Since last [illegible] the two behemoths of the futures business have also begun discussing unification of their clearing houses. This is hailed by both exchanges as the [illegible] important joint move yet.

It is expected to be a big money saver for members of both exchanges and is aimed at maintaining Chicago as the world centre of futures trading.

Mr William O'Connor, chairman of the CBOT, said in a recent speech that the International Clearing House in London posed a clear challenge for leadership [illegible] in[illegible]rnational [illegible] trading and that Chicago must fight to keep its place in the sun.

He also warned that the Securities and Exchange Commission will undertake a study of clearing issues that is likely to mandate common clearing and in a way that is unlikely to favour the futures markets. He would like to beat the government to the punch.

He also pointed out that clearing was a key advantage in the futures industry's competition with off-exchange derivatives. He insisted that unified clearing in Chicago would sharpen the competitive edge markets hold over off-exchange trading.

The two exchanges have also embarked together on a series [illegible] foreign efforts, including joint agreements of co-operation with the fledgling exchanges of Budapest and Moscow. They have teamed up to market their products and Globex in Tokyo, Hong Kong and Taiwan. And they are expected to consolidate their offices in London and Tokyo, allowing the savings to be used to open offices on the continent and in Hong Kong.

However, this has not meant that the two exchanges have ceased to compete for business in their contracts. For example, they both introduced Japanese stock index products last year, the CME a Nikkei future and the CBOT a Topix future. Only the Nikkei futures succeeded. More recently, the CBOT has launched interest rate swap futures, which will potentially compete with the CME's Eurodollar contract.

Co-operation among New York's five futures exchanges has proceeded less smoothly, but at the end of April they approved a joint move to a new trading facility in 1994 and are now in talks on possible unification of clearing and other preparatory issues.

US options exchanges, regulated separately from futures markets and thus maintain discrete entities, are also engaged in developing a worldwide electronic trading system for options. The Chicago Board Options Exchange, the American Stock Exchange and the Cincinnati Stock Exchange are expected to complete formal agreement on a system with Reuters Holdings by the end of this month. They hope to have a system up by 1993.

> **US options exchanges are [illegible] engaged in developing a worldwide electronic trading system for options. The Chicago Board Options Exchange, the American Stock Exchange [illegible] Cincinnati Stock Exchange are expected to complete formal agreement on [illegible] system with Reuters Holdings by [illegible] end of this month.**

With respect [illegible] competition on contracts, [illegible] five American options exchanges, including the CBOE, Amex, the Pacific Stock Exchange and the New York Stock Exchange, [illegible] also recently submitted [illegible] proposal [illegible] SEC for an inter-market [illegible] pass-through system to deal with the commiss[illegible] order [illegible] institute multiple trading [illegible] options – that [illegible] the listing of the same option on more than one exchange. If accepted by the SEC, Philadelphia Stock Exchange, sole non-signatory on the proposal, will comply.

American options exchanges already jointly own the Options Clearing Corporation and have unified price reporting and quote systems.

International co-operation [illegible] American options markets and foreign exchanges has also begun with the CBOE's agreement with London's International Stock Exchange on FT-SE options and Eurotrack 100 and 200 options.

Amex, which leads US options markets in foreign derivative products, has reached an agreement with the European Options Exchange of Amsterdam to trade, pending SEC approval, options and warrants on the Eurotop 100 index.

Amex is also in discussions with the Frankfurt Stock Exchange for trading the DAX index, though regulatory issues must be ironed out.

European futures and options markets, which unlike the US can be under one roof, are at an earlier stage of development with greater head-to-head competition on contracts.

The Marché à Terme International de France (Matif), for example, recently announced [illegible] intentions [illegible] launch a futures contract in September on Italian government bonds just two weeks before the [illegible] of trading of a very similar contract by the London International Financial Futures Exchange (Liffe).

The Deutsche Terminbörse, Germany's electronic futures and options market begun in January 1990, is also wrestling with Liffe to bring home from London more of the trading in the German government bund.

Liffe's current dominant position could be strengthened with its pending merger, due later this year, with the London Traded Options Market.

As the European taste for derivatives grows, trading will settle in the exchange or exchanges where liquidity is deepest, barring regulatory or other barriers to normal market tendencies. The economic unification of Europe is also likely to add a vigorous push to European regional co-operation.

But the advent of worldwide electronic trading, if through Globex and the Amex-CBOE systems, could mean that derivatives volume is still concentrated in the US.

Barbara Durr

INTERNATIONAL CAPITAL MARKETS 4

■ SECURITISATION

Surge of activity yet to materialise

EUROPEAN securitisation is a market much tipped for growth, but the surge in activity predicted by proponents of the market for [illegible] years has yet to materialise.

In the US there are trillions of dollars of mortgage-backed and asset-backed bonds, but Europe's largest market is the £10bn market in sterling mortgage-backed securities.

Economic pressures are forcing European companies, especially financial institutions, to focus on balance sheet structure.

Securitisation allows the removal of assets from an issuer's balance sheet, as assets are repackaged and sold to investors in the form of bonds.

The need to meet new capital requirements is forcing

Economic pressures are forcing European companies to focus on balance sheet structure

[illegible] in particular to look closely at securitisation. Increasing competition in the financial services area is also obliging firms to focus on key businesses, and when necessary to sell off assets in other areas.

But [illegible] firms are not yet proving sufficiently strong to overcome the reluctance of many potential issuers to undertake securitisation.

And in several countries where banks are poorly capitalised, there is not yet an adequate legal structure for securitisation. This is true of both Spain and Italy where there is strong interest in securitisation.

In Japan, where a weak stock market has [illegible] the capital held by many financial institutions, the Ministry of Finance is widely expected to liberalise the financial markets in order to pave the way for securitisation.

In France, where a "titrisation" law was passed in 1988 to provide a legal framework for securitisation, more than 20 deals have been launched. So far, most [illegible] issues have been backed by loans, and placed with domestic institutions.

It is generally agreed that the structure of the law has allowed some less-than-genuine securitisation (for example, bonds backed by a single loan) and restricted an important [illegible] of the market, the credit card receivables market.

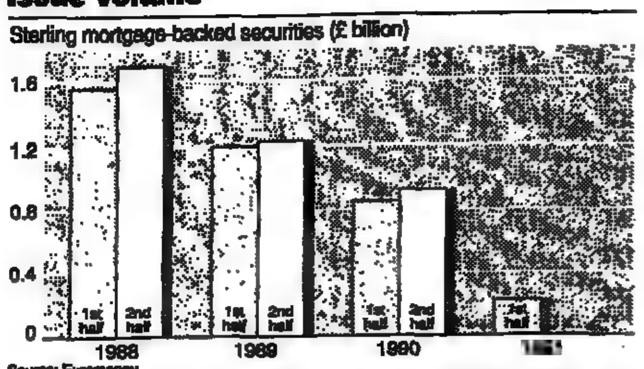
The French Treasury is close to deciding how to [illegible] on securitisation in France.

French bankers have been lobbying for the removal of the two-year minimum maturity to allow securitisation of credit card receivables, believed to be crucial to the market's growth. Substitution of assets is likely to be allowed.

Securitisation is unlikely to [illegible] in Germany [illegible]

Issue volume

Sterling mortgage-backed securities (£ billion)



Source: Euromoney

banks are well capitalised and can access fresh capital rapidly. But the first German deal appeared last year, a DM230m private placement backed by consumer loans originated by KKB Bank, a Citibank subsidiary.

The deal was approved by the Bundesbank, but securitisation remains a politically sensitive issue in Germany and public offerings of such debt are not likely to be permitted.

Smaller European markets such as Belgium and Ireland are in the process of passing legislation to facilitate securitisation. In Belgium, securitisation of loans is expected to be possible before the end of the year.

The Swedish mortgage market is particularly suited to securitisation because mortgages are of short duration and

Economic recession caused the rate of mortgage defaults to rise substantially, unsettling investors

[illegible] prepaid. The first [illegible] mortgage-backed deal – and the first in Europe outside the UK – was launched by a subsidiary of Skandinaviska Enskilda Banken, the Swedish bank, at the end of last year.

Meanwhile, the promising UK mortgage-backed market has survived a difficult period.

Economic recession caused the rate of mortgage defaults to rise substantially, unsettling investors and causing margins on mortgage-backed securities to widen substantially at the end of last year.

The final blow came in January when the Bank of England said that UK banks would probably have to set aside more capital against holdings of mortgage-backed securities.

Under European Community legislation, the securities would have to carry a 100 per cent risk weighting under capital adequacy guidelines from January 1993, rather than a 50 per cent weighting – effectively doubling the amount of capital that banks are required to hold from that date.

However, some investors decided that the market offered good value at these wider margins and started buying again, and the market has since recovered substantially.

Banks backed by US credit card [illegible] have also suffered as a result of economic recession. The market is primarily based in the US but some issuers, most importantly Citibank with its substantial global bond programme, have placed large amounts of paper in Europe.

For a time, the rising consumer rate on credit cards seemed likely to trigger premature redemption of certain issues, because the deals were structured with very wide safety margins. However, that market also recovered, helped by a commitment by issuers to protect the margins if necessary.

While US issuers such as Citicorp have focused on Europe as an investor base, European issuers remain rare.

An important deterrent is still the high cost of securitisation, particularly for first-time issuers. In many cases, new systems have to be established to track the underlying assets, and sometimes existing information on those assets is incomplete. With some deals requiring a year's preparation, legal costs for new issuers can range from £250,000 to about £2m.

Issuers also have to pay credit rating agencies to rate their issues, adding about 4½ basis points to the cost of a new issue – usually £20,000 to £70,000.

In addition, depending on the structure of the deal, issuers may have to bear the cost of credit enhancement, through a letter of credit from

Issuers also have to pay credit rating agencies to rate their issues increasing the new issue costs

a bank or through a guarantee from one of the specialist insurers, which can cost from 10 basis points a year.

However, the cost of funds on securitised investments cannot be directly compared with other forms of borrowing, because securitisation reduces the need for capital and so can help lift a company's return on equity. Borrowers tend to have strategic, as well as financial, reasons for using securitisation.

Tracy Corrigan

Tracy Corrigan examines the risk management business

Attractive profit margins continue

THE [illegible] by Allied-Lyons through its [illegible] products in the foreign exchange market may have deterred some companies from investigating the benefits of such instruments.

The Hammersmith and Fulham swaps case, which could leave banks out of pocket to the tune £500m, may have encouraged banks to be more selective about their counterparties.

But the derivatives business is booming, and banks are competing fiercely for business in a market which still offers attractive profit margins.

The internationalisation of business during the past 10 years has increased the exposure of large companies to the vagaries of financial markets.

Currency exposure is no longer a concern only for exporters and importers. Most large UK companies, for example, now have some operations abroad, and the translation of foreign earnings back into sterling has become a crucial concern. Foreign exchange exposure is no longer accepted as a valid excuse for losses or declining profits.

Consequently, many corporate treasurers have become sophisticated users of derivative products in order to offset currency and interest rate risk. Competition among banks for a share of this lucrative market has fuelled innovation and reduced costs.

Derivative products allow companies to fix costs and income flows in advance, which is particularly valuable when recession is biting into margins.

"Once we've set a budget for the year, we like to take as much of the currency risk out as possible," explained Mr Keith Hamill, director of financial control at Guinness in a recent interview. The UK brewer estimates that it will have foreign currency exposure of about £700m this year. "Our policy is not to speculate. We use hedging to create predictable cashflows and profits," he added.

There are several markets for hedging foreign currency exposure: the forward market, where companies buy or sell currencies for future settlement and the options market, where the holder can buy or sell a currency at a set rate. Unlike futures contracts, options give the purchaser the right, rather than the obligation to buy or sell. This means that a treasurer can use an option as insurance against adverse changes, but leave it to expire if such protection proves unnecessary.

The technology surrounding straightforward currency options has become widely understood, and such options are now considered to be "commodity" products, for which high premiums can no longer be charged.

But new, sophisticated products designed to suit the individual requirements of a company's circumstances are becoming more widely used.

For example, the "range forward" is a forward contract which allows a company to set an upper and lower limit on an exchange rate. The advantage is that it allows a company, which thinks a currency is set to rise but requires some downside protection, to keep some of the benefit if the currency does improve (unlike an ordinary forward contract). At the same time, banks do not charge an upfront premium (as they do for options).

A "participating forward" combines features of forward contracts and options, but there is no upfront premium. There is a set floor, as for an option, but there is also some participation in any gains – perhaps 50 per cent of the benefit is received by the company while the other 50 per cent is surrendered to the bank.

Another type of structure is the "average-rate" option, which gives holders the right to buy or sell an underlying market at the average price over the duration of the option.

In addition to hedging their currency against exposure to currency movements, corporate treasuries also have to match their income with their liabilities. In the area of debt management, a greater range of exchange-traded products is used than in the largely over-the-counter market for foreign exchange derivatives. Futures contracts in many of the world's government bond markets are actively traded on

The swaps market, with a notional value of $3,000bn worldwide, is widely used by corporate treasurers

futures exchanges.

Swaps allow them to borrow funds in one market and then swap the proceeds into another currency, or from fixed-rate to floating-rate (or vice versa) interest obligations, by exchanging flows with a counterparty. This allows companies to take advantage of opportunities in foreign currency markets where attractive swap rates may allow them to achieve funding at substantially cheaper levels than in their domestic market.

There may be two legs to a swap – a currency and an interest rate leg – but the final cost of funds is often compared with the company's target, usually expressed as a margin below (or above) the London interbank offered rate. Targets have been lowered as swap opportunities in many markets have been arbitraged away.

Companies are now only active in the swaps market when they raise funds in the public markets, but also use the market for general debt management.

Swaps allow companies to take advantage of rising and falling interest rate trends to fix interest payments, for example. However, there has to be a counterparty who wants to take the opposite movement. And increasing concern about the credit quality of counterparties is somewhat hampering the market of certain companies.

Swap rates – the rates at which institutions will pay or receive as a counterparty in a swap agreement – and US Treasury yields tend to move in opposite directions. But at the moment swap yields are at historically low levels, at the same time as US Treasury yields have hit a four-year low.

NatWest Treasury is consequently advising its clients to take this opportunity to lock in fixed-rate funding at historically low levels. However, many companies are reluctant to do this because short-term rates for commercial paper are lower.

An increasingly common device is the deferred rate settlement which involves locking in a new issue's yield spread over the US Treasury market for a period. Thus if interest rates decline, the borrower can lock in a lower absolute rate of fixed interest costs.

From the banks' point of view – and new participants are still entering the market – there is still growth potential in corporate treasury business. When that runs out, they will not despair. They are already targeting European fund managers, who have been generally more conservative than their counterparts in corporate treasury. Bankers believe that their conversion is at hand.

■ SYNDICATED LOANS

Sluggish volume of business

THE new capital adequacy requirements and a recession in the Anglo-Saxon economies have taken their toll on the syndicated loans market in recent months.

The volume of business has been very sluggish and few bankers expect it to pick up quickly. However, many hope that top-quality corporate borrowers will return to the loans market as growth in the western economies improves. In the longer term, the reconstruction of those countries in the Middle East affected by the Gulf War is expected to lead to heavy borrowing, possibly in the syndicated loans market. Already Saudi Arabia has negotiated a $4.5bn syndicated loan for general purposes (although the money may go towards paying for the allies' war effort) and Kuwait is thought likely to use the syndicated loans market to help pay for rebuilding the economy.

As a result of the international capital adequacy requirements agreed by the Basle Committee, many banks – particularly the Japanese banks – are looking more cautiously at their lending. In the late 1980s, Japanese banks were responsible for 40-50 per cent of new lending, but because of concerns about capital adequacy requirements they may only account for 20-25 per cent of new lending for the rest of 1991, according to one Japanese banker.

As banks claim to have become more selective in their lending, the pricing on the loans has increased markedly. Pricing – including the margin over the London interbank offered rate and various fees – is now double, or even three times higher than it was two years ago.

With the recession in the UK and US, banks have become more worried about the creditworthiness of borrowers. Many banks are now concentrating on refinancings for top-quality borrowers. A recent OECD report, Financial Market Trends, concludes that "the future pace of overall growth in the international markets will crucially depend upon the volume of demand by borrowers with high credit standing".

Worries about the impact of the recession on corporate borrowers has meant that many bankers are demanding much tighter financial ratios and more detailed covenants.

For example, the interest cover (profit divided by total interest charged) that banks are now requesting is more likely to be in the range 2-2.5 times, rather than 1.5-1.75 times as it was a year or so ago. Gearing (the debt-to-equity ratio) has also come under scrutiny: bankers say they feel more comfortable with gearing of 100-125 per cent now rather than the level of 150 per cent which was common a year ago.

Furthermore, the bankers are likely to demand quarterly or half-yearly management accounts to keep a close eye on company profitability.

While bankers appear to be showing more caution over their lending activities, demand from companies in the Anglo-Saxon economies for syndicated loans has tailed off for a variety of reasons. The high pricing on loans has deterred many, who feel they can borrow more cheaply in the international bond and commercial paper markets.

Second, much of the syndicated loans activity in the late 1980s – particularly in the US market – was related to mergers and acquisitions: as M&A activity has fallen, so demand for related financing [illegible] in 1990-1991.

Some companies which borrowed heavily to finance their growth now feel uncomfortable with their gearing in many cases, they have taken advantage

Many bankers are demanding much tighter financial ratios

of the rise in the stock markets and increased investor appetite since the end of the Gulf War to raise equity and therefore reduce their gearing ratios.

While the statistics for syndicated lending make depressing reading for bankers, most point out that the market has gone through bad patches before. According to figures compiled by International Financing Review (IFR), there were 431 syndicated loans and note issuance facilities (NIFs) worldwide in the first six months of 1991 worth $99.74bn. In the second half of 1990 there were 598 loans and NIFs, worth $160.5bn, while in the first half of 1990 there were 761 issues worth $184bn.

Citicorp ranked first in the league table of lead managers and arrangers, with $21.45bn of the syndicated loans and NIFs and 30 issues in the first half of 1991. Citicorp also came top in the first half of 1990 with 70 issues worth $52bn, but in the second half, it slipped to fourth. National Westminster was top with 66 issues worth $32.2bn.

The OECD report – Financial Market Trends – says that US companies are still borrowing in the syndicated loan market at about the same level as in 1990, but says borrowing requirements are at nowhere near the level seen in 1988-89, largely because of the decline in merger and acquisition financing.

Some banks are wondering whether British companies will return to the loans market in the next year or so as their multiple option facilities (Mofs) come up for renewal. Companies set up Mofs in the late 1980s to obtain very competitive standby funding options. As the banks were very keen to arrange these, the pricing was very aggressive, with companies paying a fee to be able to draw on the facility at a slim margin over Libor. Because the pricing was so cheap, many companies took out Mofs as a form of "insurance" on which they could fall back. However, in some cases, companies found that when they did need the funds, they were unable to fall back on these facilities as the banks used technical breaches of loan covenants as an excuse to avoid meeting their obligations.

Sara Webb

■ REGULATION

Elusive international solution

THERE is one thing on which everyone connected with regulating securities markets and [illegible] market intermediaries [illegible] the need for [illegible] international co-ordination to guard against a systemic collapse in securities markets. The trouble is, finding an international framework seems almost as far away as ever.

Several wide-ranging, multilateral attempts to stem risk in securities markets are being developed.

Not all have to do with regulation, but all are directed at reducing the dangers of financial stress in one market spreading to others.

The two most important initiatives are those aimed at agreeing a common standard of capital adequacy for securities firms, and at upgrading settlement systems around the world. Both are long and arduous processes, and each seems a long way from completion.

When reviewing the scope for structural improvements in securities markets, the Organisation for Economic Co-operation and Development (OECD) recently singled out these two areas as those with "the greatest scope for progress".

By contrast, it is in doubt how much of the effort put into guarding markets from [illegible] caused by a repeat of the 1987 stock market crash. Neither the use of "circuit breakers" in some markets at times of high volatility, nor limitations on programme trading, offered guarantees against contagion spreading in the world's securities markets.

The attempt to devise a common standard for the minimum capital of securities firms, parallel to the capital adequacy requirements for banks developed by the Basle committee of central bankers, is being taken forward on a number of fronts. The lack of a single forum for the [illegible] means that progress is slow.

Three initiatives have yet to be drawn together. The first is the European Community's capital adequacy directive for [illegible] (although banks would be able to apply the rules to their own trading books if they choose). This is the most developed of the various plans but also the one that is most stalled.

It is planned as a complement to the EC's investment

The result: the capital adequacy directive is on the shelf

services directive, which would give investment firms a "single passport" to operate throughout the Community, similar to the single passport available to banks. Yet the ISD is bogged down amid dispute over the future structure of Europe's investment markets. The result: the capital adequacy directive is on the shelf.

The second initiative is from the Basle group, which has extended its review of bank capital to include market risks. These include the risks inherent in securities portfolios held by banks. Last autumn, the Basle regulators met the progenitors of the third and final attempt at a capital adequacy standard: the International Organisation of Securities Commissions (Iosco), the grouping of securities market officials and regulators. At that meeting, the bank and securities regulators agreed to proceed together. Agreement seemed only a matter of time.

Until this spring, that is. A second meeting between bank and securities regulators, at which a common approach was to have been ratified, was called off when the securities regulators got cold feet over the plans. The authorities from [illegible] decided they wanted more time to consider the proposals. It will not be clear until this autumn whether the discussions between the banking and securities authorities are back on the rails.

Meanwhile, there have been more significant achievements in the second concerted multinational initiative to reduce risk in the securities markets: the upgrading on national settlement arrangements. The objectives set by the Group of 30 for settlement systems have in many cases yet to be attained, and the timetable established by the group is in danger of slipping in places (notably the UK, Spain, Italy, Australia and Hong Kong). However, the first significant [illegible] is now in sight in most countries: the adoption of a rolling settlement.

Further ahead, the final elimination of risk from the settlement process could prove more difficult than is currently acknowledged. Only when stock and cash change hands simultaneously, and when each side can guarantee good delivery, will the goal of "delivery versus payment" (commonly known as DVP) be achieved. There are many models for DVP, but few seem to offer an absolute assurance. Until they do, settlement will continue to be an area of risk in securities markets.

Multilateral agreements, such as those on capital and settlement, are not the only way forward. As the discussions on capital show, such debates move slowly if at all and competitive and political considerations often get in the way of final agreement. Bilateral developments could help to fill the gaps.

Bilateral arrangements already proliferate in the area of enforcement. A network of memoranda of understanding between various national regulators has been developed in recent years, providing a framework within which suspected international securities frauds can be pursued. The network is not complete: too often, the information trails being followed by investigators end at the brick wall of an offshore financial centre.

Mr James Jones, chairman of the American Stock Exchange, says bilateral deals between securities market regulators are likely to be used more widely in the future. "It would be preferable if things could be done on a multinational front. But we are more likely to see bilateral agreements," he says.

Areas for agreement might include mutual recognition of listings and accounting rules, for example.

Agreement between the US and Canada and, in the future, between the US and Mexico will put pressure on others to liberalise, says Mr Jones. In turn, liberalisation moves in Europe will put further pressure on the US.

Such competitive pressures could prove more effective in bringing about greater international agreement on regulatory issues than more ambitious, multilateral schemes.

Richard Waters

INTERNATIONAL CAPITAL MARKETS

Simon London examines innovation in financial engineering

Structures under stress

REGULATION spurs innovation; nowhere is this more true than in the world of financial engineering. While the wildest designs of the financial engineers have faded with the boom years of the 1980s, there are still plenty of buyers for tailored financial instruments.

Tax and accounting anomalies, particularly in the distinction between debt and equity, remain a rich source of material. Regulation of the banking system, with the imposition of strict capital ratios which international banks must adhere to, has also created an industry designing new capital structures.

Elsewhere, the [illegible] of derivative financial instruments is being applied to small, private deals which offer investors protection against anything from volatility on the currency markets to the price of pork-bellies.

However, the most widely applied structures are instruments which share some of the features of debt and some of the features of equity. They are instruments which cut balance sheet gearing but cost the issuer far less than common stock. The challenge is to design an instrument which looks like equity and is for the purposes of accounting, but qualifies as debt for the purposes of tax.

Perhaps the simplest debt/equity hybrids are convertible bonds, such as the [illegible] capital bonds issued by UK companies including Sainsbury, British Airways and Tesco.

The bonds give investors the right to convert into ordinary shares at a low premium to the current market price, making conversion highly likely.

The bonds are highly subordinated, giving the holders something akin to equity risk. This combination of [illegible] convinced [illegible] that the bonds can be accounted for as near-equity from the date of issue. Looked at from an [illegible] perspective, [illegible] the [illegible] by the tax authorities, the bondholders rank behind other creditors in the event of default. Yet if the issuer remains a going concern, the likelihood is the bonds will be converted into equity.

However, in other jurisdictions, debt/equity hybrids are more complex.

The main US instruments are auction market preferred shares (AMPS). The interest paid on AMPS is set through a regular remarketing or "auction" [illegible]. At each auction, investors have the right either to sell the bonds back to the intermediary which issued the notes (the remarketing agent) or demand a higher rate of interest.

From a tax perspective they are not true hybrids, since interest payments are not tax-deductible for the issuer. But they are true hybrids when looked at from the economic perspective. Because of the remarketing process, the cost of capital rises when the issuer is in trouble – just like debt.

One issuer to face the reality of this situation was Rank Organisation, which opted to repay its $200m AMPs from straight borrowings when a reduced credit rating made the instruments too expensive to maintain.

However, the search for tax-efficient capital has been most urgent among the world's banks as they struggle to meet the Basle guidelines on capital adequacy.

The Basle Committee guidelines set down capital adequacy standards, specifying a minimum ratio of capital to assets, which are being phased in by 1993. Total capital must reach 8 per cent of assets.

Of the 8 per cent, half must be Tier One or "core" capital, comprising equity and non-cumulative perpetual preference shares.

The remainder must be a mix of Upper and Lower Tier Two capital, comprising subordinated debt instruments, provisions and revaluation reserves. The distinction between Upper and Lower Tier Two capital has proved a rich vein of material with which financial engineers have worked.

In the past [illegible], many banks have turned to the issue of another complex auction-based structure – variable rate notes – to fulfil Tier Two requirements. The structure is similar to AMPS in the US. The difference is that at each stage the VRN investor has the option to reject the new coupon and put (or sell) the bonds back to the remarketing agent, a feature which provides synthetic liquidity.

However, the remarketing or auction process is fragile in times of stress. For if no agreement on coupon is reached, the note reverts to a "back-stop" margin [illegible] the London interbank offered rate and the put option ceases to operate. In theory, the back-stop margin is set at a high enough level to compensate investors for the illiquidity of the bonds under such circumstances.

However, for the first half of [illegible] year all $8bn VRNs in [illegible] were at the back-stop. Many investors – often [illegible] rate treasurers – who bought the bonds on the basis of the three-monthly put option in the belief they were an acceptable substitute for money market instruments, are now left holding illiquid paper.

The episode, like the problems in the AMPs market, serves to illustrate that engineered financial structures can be fragile. Little wonder that regulators such as the Basle [illegible] and [illegible] UK Accounting Standards Board are concerned that regulation should not lead to proliferation.

JAPAN

Tentative recovery stalls

ALL is still not well in Japan's financial markets. A tentative recovery in confidence this year, following last year's bruising stock market collapse, has been punctured in recent weeks as a spate of financial scandals have sent share prices falling again.

High interest rates, introduced in response to asset price inflation, triggered a collapse in the Tokyo stock market last year. This brought an abrupt end to five years of rapid international expansion by Japanese financial institutions.

This rise in short-term interest rates in Japan, and falling interest rates in the US, have reduced the outflow of Japanese portfolio savings. Japanese portfolio outflows fell by $73bn in 1990, compared to 1989, to just 39.7bn. Japanese investors were net sellers of US securities.

This may signal an end to the diversification of Japanese financial institutions into foreign [illegible] – which [illegible] sustained Japanese portfolio [illegible] – [illegible]ing to the recent Bank for International Settlements (BIS) annual report.

Life [illegible] companies' foreign securities holdings represented 30 per cent of their total securities portfolio at the end of 1990, down from almost [illegible] per cent at the end of [illegible].

Meanwhile the stock market collapse has caused serious problems for banks in meeting the minimum capital adequacy ratios set in 1988 by the Basle committee on banking supervision of the BIS.

The BIS standards required a minimum capital-asset ratio of [illegible] per cent at the end of 1990, rising to 8 per cent by 1992. Last year's crash knocked [illegible] than 50 per cent off Japanese banks' unrealised gains on their equity holdings, 45 per cent of which they are allowed to count as official capital.

Almost all Japan's leading banks had reached the required BIS standard in March 1991 by issuing subordinated debt and reining back their asset growth. But recent falls in the Tokyo stock market, in the face of a series of financial scandals involving the Japanese securities industry, mean that the banks are again under pressure.

Mr Shijuro Ogata, former deputy governor [illegible] the Japan Development Bank and now a director of Barclays Bank, does not expect a recovery in the activity [illegible] Japan's financial institutions this year. "If banks try to raise new capital the stock market will [illegible] it," he [illegible].

Mr Yoh Kurosawa, president of the Industrial Bank of Japan, confirms that the latest scandals have damaged the prospects for Japan's banks, as well as the securities companies directly involved in the illegal practices. "Our neighbours' misfortune is our own misfortune," he said.

Mr Kurosawa said that as a result of the stock market's continued weakness the Industrial Bank of Japan would not be able to have a rights issue this year. He does expect asset growth in 1991 to top 2 per cent.

"If the stock market recovers and we can do a rights issue then we may take a bit more of an aggressive position than we are doing," he said. Even then the BIS rules will continue to constrain the banks' international lending. "We could not be aggressive like in 1985 – that was too much."

As a result, the Japanese banks have become more profit-conscious and are stressing the quality, rather than growth, of their asset portfolios. They are also raising their profile in securities activities [illegible], such as Eurobond underwriting and selling and futures trading, to gain experience in advance of the expected liberalisation of the Japanese securities industry.

At present only foreign banks are permitted to engage in securities business in Japan through their subsidiaries. Domestic banks are prevented from doing so by Article 65 of the Securities and Exchange Act, Japan's version of the US Glass Steagall Act.

In recent years, the banks have pressed for this law to be [illegible] but the [illegible] industry remains opposed to a full-scale deregulation. The Ministry of Finance is expected to propose legislation by the end of this year.

So far, the securities companies have grudgingly agreed to banks' subsidiaries engaging in certain primary securities activities from 1993 – lead managing publicly-placed bonds and equity-linked instruments, and issuing privately-placed bonds.

The banks reply that underwriting without broking is meaningless. Mr Kurosawa said that with no secondary business there could be no primary business. "You cannot issue bonds to clients but then not be able buy them back if they want to sell" he said.

Edward Balls

EMERGING MARKETS

Forging ahead in difficult times

THE recession in many of the developed economies over the past year has made portfolio exposure to the fast-growing economies of Asia and Latin America desirable for many international investors.

While the stock markets of the developed world have stagnated, many emerging markets are forging ahead. So far this year the Mexican stock market has risen 55.8 per cent, the Malaysian stock market 20 per cent and the Brazilian stock market a staggering 138 per cent.

Historically, the Asian markets have attracted most interest because of the prodigious rate of economic growth which has been sustained by [illegible] economies. In 1981, the Asian [illegible] markets only [illegible] for 43 per cent of the total market capitalisation of all emerging markets, according to the *International Finance Corporation*, the private sector financing arm of the World Bank. By last year, this had risen to 72 per cent.

As a result, there has been a steady flow of companies from the [illegible] equity-linked debt, in [illegible] form of either warrant bonds or convertible bonds, to international investors.

The most active have been Korean companies, not least because the Korean stock market is still closed to foreign investors. But others to have issued equity-linked international debt securities include Taiwanese, Indonesian and Thai companies.

Not all of the deals have been a sparkling success. In particular, the four Indonesian equity-linked debt offerings launched in April seemed to saturate the market. For example, PT Indorayon's $60m convertible offering was launched at par in April but was trading at a price of 85 bid by June. A combination of too much new paper and a poor performance by the Indonesian stock market were blamed. Indonesian share prices have fallen by nearly 20 per cent this year.

This underlines that appetite for emerging market exposure is still something of a niche business in the context of international securities trading as a whole. It is also a reminder that many emerging stock markets are highly volatile. But in many markets outside regulation prevents direct investment by overseas investors in equity markets, so international equity-linked bond offerings provide the only route of access. This is slowly changing. From January 1 next year, foreigners will be able to buy up to 10 per cent of a Korean company. The Taiwanese authorities are also slowly liberating their stock market.

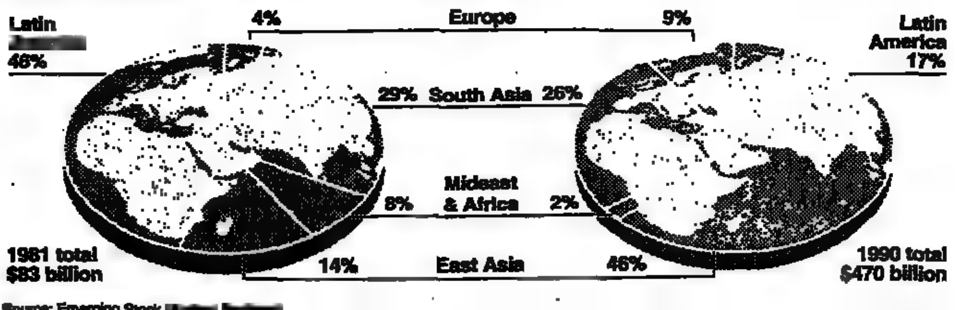
This may slow the flow of equity-linked debt. But even where direct investment is allowed, problems of liquidity, settlement and volatility make international bonds an attractive proxy.

The markets of Latin American have not kept pace with those of Asia. In 1981, Latin American markets made up 46 per cent of all emerging markets by capitalisation. By 1990, this had fallen to just 17 per cent.

However, borrowers – both sovereign and corporate – from Latin America have undergone something [illegible] rehabilitation in the international marketplace in the past

Regional weights of emerging markets

Based on market capitilisation in US dollars



Source: Emerging Stock [illegible]

year. According to research by Salomon Brothers, capital flows into Latin America have grown from $5bn in 1989 to over $13bn for 1990.

Mexico has been the at the forefront of the resurgence. The Mexican economy was the largest recipient of new capital flows in 1990, with a total of $8.4bn invested, enough to cover [illegible] nation's projected current account deficit twice over, say Salomon Brothers.

Outside Mexico, large borrowings have been few, although the volume of small private placements has risen

However, to have access to the international capital markets, a Latin American issuer has to be at the top of its industry, financially strong, and a large generator of dollars. This means that there are only [illegible] or [illegible] names in Mexico, still more than in most other Latin American companies.

Pemex, the Mexican state oil company, has led the way with Eurobond issues in D-Marks, *Austrian schillings, dollars and* Ecu, as well as a US domestic bond offering.

Despite this track record, Pemex still has to pay a premium for international funds. The company's Ecu75m three-year issue, launched in early July, carried a coupon of 11⅛ per [illegible]. Top-rated corpora[illegible] from Europe and the US [illegible] substantially less. For example, a three-year issue launched by [illegible] Brown [illegible]erei, the Swedish-Swiss engineering group, at about [illegible] carried a coupon of just 9¼ per cent.

But the range of available instruments and the range of investors willing to back Mexican companies is broadening all the time.

The position of Mexican companies was aided by Telmex, the formerly state-owned telecommunications company, which raised $2bn from international investors in one of the largest ever international offerings of equity.

The transaction was rated a success by most observers. In particular, 800m shares were sold into the normally risk-averse US market. This transaction and the planned free-trade agreement with the US and Canada will do much to bring Mexico back into the mainstream of international finance.

Outside Mexico, large borrowings have been few, although the volume of small private placements has risen. Chile, perceived as a stronger credit than Mexico, has been little in evidence, due to the country's well-developed domestic markets.

Chile's top companies can raise funds for as long as 12 years domestically for a margin of only a couple of basis points above the dollar London interbank offered rate: a funding level [illegible] compa[illegible] elsewhere in the world would envy.

Rates in Chile became very tight [illegible] of the growth of [illegible] funds, which [illegible] instruments. As their demand for [illegible] could not [illegible] issuance, [illegible] relaxation of the rules.

Chilean companies have little [illegible] to borrow [illegible] their [illegible]. However, Compania [illegible] Telefonos [illegible] Chile (CTC), the telecommunications company, [illegible] nearly $100m of shares as American Depository Receipts on [illegible] New York [illegible] exchange last year.

Petroleos [illegible] Venezuela, [illegible] Venezuelan oil [illegible] companies are generally [illegible] well known internationally, and the economic fundamentals are [illegible] favourably perceived.

In other countries such as Brazil, Argentina and Colombia, still facing economic problems, there have been mainly small privately-placed deals, usually for less than $25m.

However, Petrobras, the Brazilian [illegible] oil company, recently [illegible] this pattern with a $200m [illegible] bond [illegible] managed by [illegible] Manhattan. The success of the deal underlines the extent [illegible] which [illegible] stimulating interest among international investors.

Simon London

WALL STREET

A welcome tonic

IF 1990 was the darkest year in *Wall Street history*, when earnings plummeted, [illegible] mounted and thousands lost their jobs, 1991 is proving a [illegible] for the nation's beleaguered [illegible] houses.

So far this year earnings have recovered, losses have been pinned back by restructurings and the flow of redundancies has begun to abate. Analysts estimate that when the US securities industry reports its second-quarter income this month, total pre-tax profits for the first half of the year will have reached somewhere between $2.25bn and $2.5bn. That would be a dynamic improvement on 1990, when securities firms made their first loss in 17 years. It would also come close to matching their best year of 1987, when $2.7bn was earned in the first six months.

Evidence of this rebirth can also be seen in how well shares in broking houses have done since January. According to Birinyi Associates, the New York research firm, stocks of the leading publicly-owned brokerages rose 46 per cent in the first half of the year, which made the broking sector one of the top five performers over the six-month period.

In contrast, the Standard & Poor's 500 index, the best indicator of wider market performance, rose by 12.4 per cent. The gains in broking house stocks have been a direct result of the strength of the overall market and the increase in trading volume, which has generated greater income for Wall Street houses.

One of the best performers has been Merrill Lynch, the biggest US securities house and a traditional bellwether for the industry. Early this year, Merrill's stock was at a low of just over $19 amid fears of a prolonged bear market and rising costs. Yet by mid-year the price had more than doubled to just under $40. Merrill's profits in the first quarter rocketed 338 per cent to $181m.

In spite of the weakness in the stock market in the second quarter, analysts expect another set of impressive figures from Merrill for the April-June period, primarily because of the big increase in domestic bond and equity *underwritings*. Between January and the end of June, US companies raised a record $261.9bn in new capital, a 59 per cent increase on the first half of 1990. The bulk of the new issues were launched in the second quarter. Merrill earned a large chunk of that business, acting as lead underwriter for $48.5bn in new issues, making it by far the biggest deal handler on Wall Street.

All the big brokers have benefited [illegible] the explosion in new [illegible], with Goldman Sachs, Salomon Brothers, Shearson Lehman, First Boston, and Kidder Peabody [illegible] underwriting issues worth more than $20bn in the first half of 1991. The finance officers of corporate America have rushed to the market to raise cash because of the strength of bond and equity prices which has enabled issuers to [illegible] more for their new securities – and the belief that interest rates *have reached a floor*.

Wall Street, however, cannot count on the number of new issues keeping pace in the second half of the year. The appetite of institutions for new paper is dwindling as cash reserves diminish, and by late June there were signs that brokers were having trouble placing new stock and bonds.

Investment management has been another area where Wall [illegible] firms [illegible] done well. Millions [illegible] pounds spent on advertising [illegible] persuade Americans [illegible] place [illegible] money with brokers has paid off. Fee-based income, previously neglected by many broking houses, has become a vital contributor to balance sheets.

Other areas of success include asset and mortgage-*backed securitisation, and debt* financing. The success of Merrill Lynch in the latter has persuaded the likes of Salomon Brothers, Goldman Sachs and Bear Stearns to expand their debt transactions operations. Even the much-maligned junk bond market has experienced something of a revival, while the even more maligned real [illegible] market is showing [illegible] life, with Morgan Stanley and Merrill Lynch this year setting up big institutional funds to invest in cheap property assets.

The finance officers [illegible] corporate America *have rushed to the* market to raise [illegible]

The growth in income from trading, investment management and equity and bond offerings has helped offset a precipitous decline in earnings from mergers and acquisitions (M&A) business. According to Securities Data, the financial research group, US businesses were the target of 1,999 deals totalling $57.3bn in the first half of this year, down 44 per cent on the first six months of *1990 – itself a quiet year.*

A combination of heavy debt loads (much of it related to previous acquisitions), a shortage of credit, poor economic trading conditions and an uncertain economic outlook kept mergers and takeovers to a minimum. There are few indications yet that domestic M&A [illegible] will pick [illegible] especially as [illegible] burden [illegible] corporate America shows no sign of easing.

While Merrill Lynch has prospered in the past year, two *other big names have only just* begun to recover from the disasters of the late 1980s. Shearson Lehman and Prudential-Bache are both owned by non-broking parents – Shearson (now renamed Lehman Brothers) by American Express, and Pru-Bache (now renamed Prudential Securities) by the giant insurance company, Prudential. Both firms have proved a drain on resources for their parents.

Pru-Bache's attempt to transform [illegible] into [illegible] leading investment bank was a failure. Prudential's estimated $1bn investment in its securities subsidiary led to losses of $51m in 1989 and $250m in 1990. The losses stemmed from ill-advised expansion in four key areas: *investment banking*, limited partnerships, risk arbitrage and Canadian finance.

Since those losses, Prudential has installed its own man as head of its securities unit, a flexing of parental muscles echoed at Shearson where American Express has begun to exercise greater control over the country's second-largest brokerage firm. The $915m loss in the first quarter of 1990 forced American Express to drop its plan to give Shearson more freedom and buy the broker outright, in the process investing some $1.35bn.

The loss of independence at Pru-Bache and Shearson was a big blow to Wall Street's morale and although both firms have been helped back to profitability by favourable market conditions, it will [illegible] *some time before the two firms* regain their lost confidence.

While revenues [illegible] up on Wall Street, on the cost side the restructuring programmes forced upon the industry in the past few years have begun to bear fruit. More than 70,000 [illegible] shed within the industry since 1987, helping firms lose much of the excess fat put on during the 1980s boom years.

Yet there is still over-capacity in some areas, most notably *in back office clearing* [illegible] tlement operati[illegible]. The big houses have been restructuring the [illegible] in an attempt to bring costs down and improve efficiency. Some, such as Salomon and Paine Webber, have moved their operations out of expensive Manhattan, while others have talked of back office mergers with their competitors.

There is also overcapacity at a market level, particularly in the government bond markets where 40 securities houses enjoy the status of "primary dealer", those who trade directly with the Federal Reserve. The intense competition among primary dealers has squeezed margins and cut earnings. Although six firms *have relinquished* their dealership privileges in the past 18 months, analysts believe there is room for at least another half-dozen withdrawals.

Overall, 1991 has been good to Wall Street. But few securities firms are counting their chickens. Part of the improvement has stemmed from strong market conditions, and part from structural changes within the industry. While the benefits of the latter should prove long-lasting, securities firms cannot rely on market conditions remaining favourable, especially when the economy is still struggling to pull out of a recession that has been deeper and longer than anyone expected.

Patrick Harverson

FINANCIAL TIMES
COMPANIES & MARKETS
Monday July 22 1991

INSIDE

Stocklake goes into voluntary liquidation

In an effort to return [illegible] cash [illegible] shareholders in a [illegible] efficient manner, Stocklake Holdings, [illegible] trading group, is [illegible] into voluntary liquidation. [illegible] will [illegible] in Adam & Harvey, which owns the trading activities of [illegible] will [illegible] a [illegible] Exchange listing, and in [illegible] Brothers Group, the [illegible] merchant bank. Maggie Urry examines [illegible] of the [illegible]. Page 16

Upside of a down

A 38 [illegible] in first-half profits is not usually a [illegible] for celebration in [illegible] companies; but at [illegible] Espanol [illegible] Credito (Banesto), [illegible] of Spain's largest commercial banks, the fall will be viewed as a healthy development. [illegible] year, Banesto [illegible] profits from the sale of part of its large cement holdings. Banesto [illegible] income in the first half of 1991 had actually increased [illegible] cent. Peter Bruce reports. Page 17

Tales of the unexpected

Gilt prices took a tumble [illegible] following the unexpected announcement of a £1bn ($1.6bn) tranche of [illegible] government bonds [illegible] a far from popular maturity range. The announcement, although part of an already revealed plan to fund the government's deteriorating public [illegible] account, [illegible] up a reminder of the susceptibility of the [illegible] to [illegible] funding issues. Peter [illegible] reports. Page 18

Euromarkets put on brave face

The news [illegible] the British [illegible] of Fair Trading is making [illegible] "polite inquiry" into new issue practice in the Eurobond market has come at a highly sensitive time for the industry. Having flourished as an offshore arena, the market is trying to define and defend its position under a new European Community regulatory regime. Simon London reports. Page 19

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Moody's downgrades six US insurers

By Nikki Tait in New York

CONCERNS over [illegible] the US life insurance industry [illegible] likely to be fuelled by the decision of Moody's, one of the large Wall Street rating [illegible] to downgrade six big insurance companies.

Announcing its [illegible] at the weekend, Moody's cited [illegible] on-[illegible] deterioration of commercial real [illegible] values, which will increase underperforming [illegible] and investments". [illegible] one-fifth of the life industry's investments [illegible] held in property-related assets. "Earnings will be under pressure, and capital [illegible] will be [illegible] at those companies with significant real [illegible] exposure," it commented.

The downgradings cover John Hancock Mutual Life Insurance, the 10th-largest life company in the US; Massachusetts Mutual, ranking 15th; Principal Mutual, a [illegible] player in the pension and [illegible] health [illegible]; Mutual Life Insurance Company of New York; New England [illegible] Life Insurance [illegible] with [illegible] of some $17bn; and Travelers' Insurance, part of the big Travelers composite insurance group.

Moody's said it was m[illegible] [illegible] companies, where analyses continued. It stressed, however, that future rating reductions should be modest in magnitude. It also said the "[illegible] majority" of its rated insurance companies continue to be of "exceptional", "excellent" or "good" financial strength.

The recent downgradings leave most of the companies in the A category – upper medium grade, adequately secured – or better. John Hancock moves from Aaa [illegible] to Aa[illegible] (middle of the excellent category); [illegible]chusetts Mutual from [illegible] to [illegible] (upper end of excellent); Mutual Life from A2 to Baa1; New England Mutual from Aa1 to Aa3; Principal Mutual from Aaa to Aa1; and Travelers from A1 to A2.

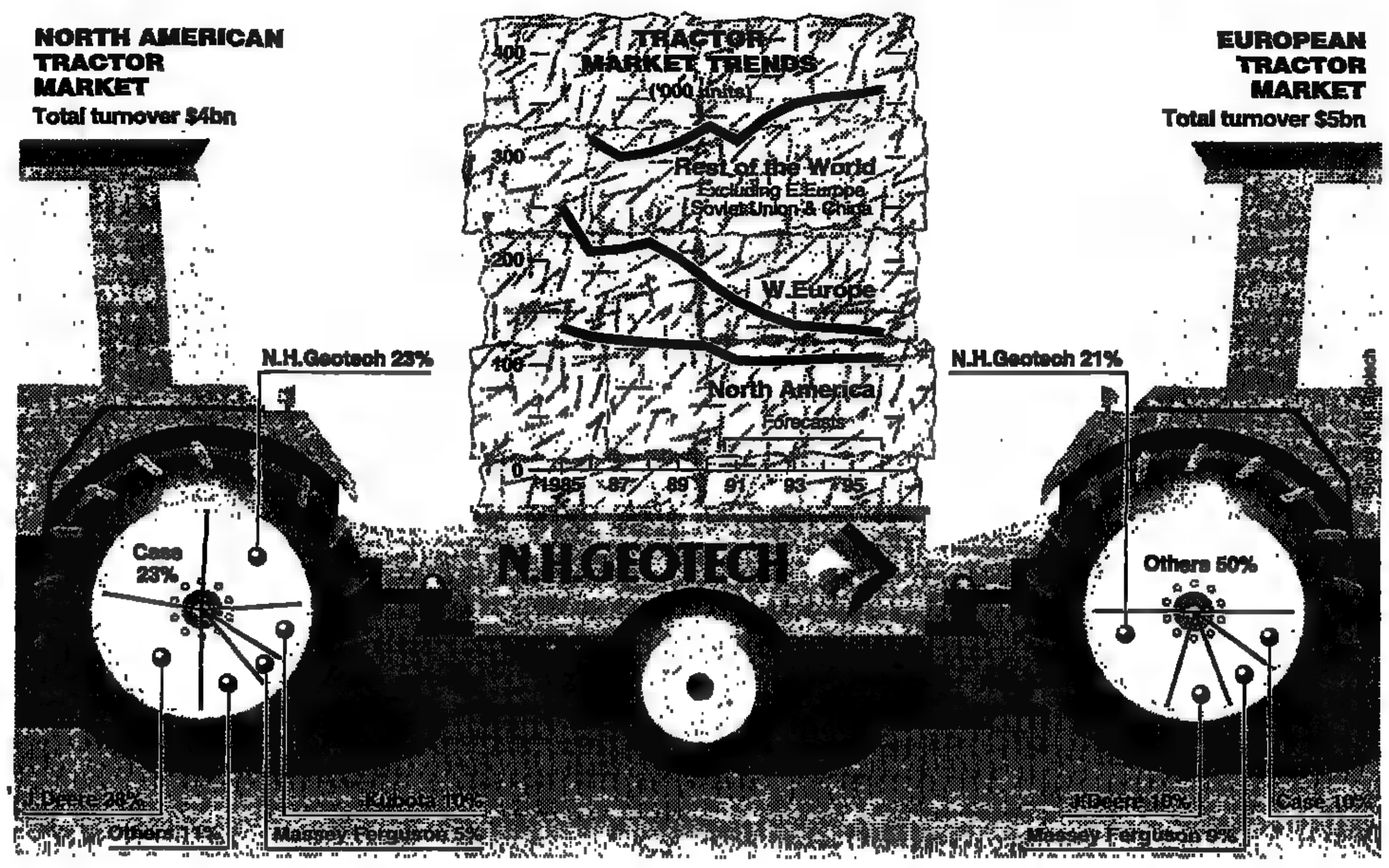
However, although the downgrades are not substantial, they come at a time when there is every sign of a crisis of confidence in the industry.

Last week's seizure of New Jersey-based Mutual Benefit – the largest single insurance company collapse in the US – coupled with similar moves at a handful of other insurers in recent months has fuelled questions about the adequacy of existing insurance regulation. In some cases, fear of regulatory intervention has caused investors to surrender policies. That, in turn, has provoked the run on liquid assets which has [illegible] regulatory intervention necessary.

In view of this "[illegible] issue", [illegible] of the downgraded insurers [illegible] quick to respond. Principal Mutual claimed that [illegible]thing of consequence had changed in its property holdings to justify a lower assessment of its financial strength. Mutual of New York claimed that the rating was "totally inconsistent with the ratings [illegible] from all [illegible] rating services".

N.H. Geotech nutures a field of dreams

Andrew Baxter talks to the group's chairman about plans for the future



As farmers throughout Europe and North America prepare for this year's harvest, a small group of seasoned tractor industry executives is embarking on a complex process whose benefits may take rather longer to reap.

It is almost a year since Fiat of Italy and Ford of the US announced they were merging their agricultural and construction equipment businesses to form N.H. Geotech. Fiat holds an 80 per cent stake in what is the world's largest tractor manufacturer, in terms of units sold.

Staff who have just moved into N.H. Geotech's new world headquarters in west London did not even have time to fix the pictures to the walls before their chairman, Mr Giorgio Garuzzo, paid them a visit last week.

In his first interview since the deal was completed in May, Mr Garuzzo, Fiat's chief operating officer, outlined the strategy for a group which employs 30,000 worldwide and had *pro forma* sales of $5bn last year.

N.H. Geotech combines the Ford New Holland range of agricultural and construction equipment with its counterparts at Fiat Geotech – Fiatagri agricultural machinery, Fiatallis earthmoving equipment and Fiat-Hitachi hydraulic excavators.

Mr Garuzzo, who has a reputation as one of Italy's toughest managers, made it clear that there would be plenty of changes over the next few years – although not quite in the way that some in the tractor business had expected.

The [illegible] has had a long, difficult incubation. It took 10 months of negotiations before the two rival companies could reach agreement.

Anti-trust and legal problems in the US held up progress. Spinning out [illegible] agricultural business from Ford's existing "monolithic structure" in Europe also took a long time, says Mr Garuzzo.

The uncertainty created by the delay opened up a potential marketing opportunity for competitors, which at least one in the UK said it tried to exploit – largely unsuccessfully, Fiatagri claims.

To make things worse, the new company's markets have plunged into recession virtually worldwide. In Italy, it is struggling to recover from the collapse of Federconsorzi, the farm services group which Fiatagri used as a tractor distribution network.

Hardly anybody is making money in the world tractor business this year. Fiat Geotech and Ford New Holland are each losing money, says Mr Garuzzo. "So, by adding two losers, you get a bigger one," he adds.

But Fiat is sticking to the original strategy behind the deal, which is underpinned by longer-term trends in the agricultural equipment market.

Neither Ford nor Fiat felt they were big enough to be competitive in an increasingly global market. They faced the choice of selling out or making an acquisition. "We were going more towards acquiring, and they to divesting, so we met," says Mr [illegible].

The deal gives N.H. Geotech 20 per cent of the world tractor market, a springboard for a long-term assault on the 60 per cent of the market which remains [illegible]mented.

But N.H. Geotech's approach to getting the necessary financial strength varies in one important respect from the tractor mergers of the 1980s, notably the combination of JI Case and International Harvester to form the Case IH brand.

The new company plans to [illegible] its distribution [illegible] and brands [illegible], concentrating its savings on what Mr Garuzzo calls "industrial synergy in the backyard". These are [illegible]mon components, research and development, and a [illegible] specialised manufacturing in plants which can serve the whole group.

The retention of two [illegible] networks amazes some of N.H. Geotech's competitors in the UK, where total unit sales are down 20 per cent so far this year in a market battered by the recession, the European Community's Common Agricultural Policy, and last year's excellent [illegible]. "I [illegible] it – the market simply [illegible] it," says one rival.

Mr Garuzzo counters that the savings from merging the dealer network – one of the key assets for any tractor company – would have been minor compared with the trouble caused to customers [illegible] to dealing either with Ford or Fiat. The company also says the "double-dealer" issue affects only about seven or eight countries.

The situation in the UK is, in any case, different to the rest of Europe. Fiatagri has just 3.5 per cent of the tractor market and is acquiring a leader with 24 per cent. N.H. Geotech officials believe there is scope to increase Fiatagri's share that would be lost by integrating the brands and networks.

The heavy rationalisation behind the scenes is [illegible] surprising, and has been an inevitable feature of all recent tractor industry mergers. Mr Garuzzo sees eventual savings of "some hundreds of millions of dollars" without disturbing the distribution network.

The programme will affect N.H Geotech's 17 plants worldwide in different [illegible] as the company reduces duplication and [illegible] specialisation. In [illegible], the three biggest plants [illegible] at Modena in Italy, Basildon in the UK and *Zedelgem, Belgium*.

[illegible] Garuzzo said the [illegible] employees [illegible] "can [illegible] that [illegible] will occur. But if I was one of them, I would stay reasonably comfortable waiting to see what is to happen ... We are not here to close, otherwise we would not have done the deal."

Basildon produces 55,000 tractor engines a year, but the latest range would have been the last without Fiat's intervention. The deal will integrate that output in a worldwide business big enough to finance the next generation, Mr Garuzzo suggests.

For N.H. Geotech's powerful shareholders – Ford retains a 20 per cent stake – the test for the new company's strategy will be profits. Mr Garuzzo is aiming for break-even in the next 18 months, followed by profit as the [illegible] six-year rationalisation *programme runs its course*.

Whether N.H [illegible] ever really rakes it in, however, will depend on its ability to exploit access to more than half the 1.2m unit-a-year world tractor market. Here, Mr Garuzzo cites a paradox for the new company and all its rivals: "The people who need [illegible] have less money to pay for them."

Economic Notebook

Dutch welfare disables the economy

"THE NETHERLANDS is sick," Mr Ruud Lubbers, the country's prime minister, said last year in a famous lament about the health of the Dutch welfare state. However, a more accurate description of the Dutch predicament would be: "The Netherlands is disabled."

The country faces a disability problem of unprecedented proportions. For every six people of working age, there is one who has officially been declared disabled or, according to the literal translation from Dutch, "unfit to work".

No country in the world has such a large proportion of its potential workforce drawing state benefits. Yet the Netherlands has a welfare state whose generosity is rivalled only by that of Scandinavia. The Dutch possess an enviable healthcare system and excellent health.

So what a[illegible] for the Dutch disabled? The answer is widespread abuse of the system, not by individuals faking non-existent pain, but by the country at large. The disability scheme – known by its initials, WAO – has become an expensive, but conv[illegible], dumping ground for surplus workers. As such, it is a huge, hidden form of unemployment.

The Dutch disability problem is difficult for outsiders to comprehend. Abroad, the word "disabled" conjures up images of physical handicaps and wheelchairs. In the Netherlands, the incapacitated also include people who are embroiled in conflicts with their employers but who cannot be fired because of Dutch labour laws.

The disabled are often people who suffer from stress caused by either personal or professional problems, or both. As many as one-third of all disability payments are due to psychological rather than to physical problems. For almost 25 years, the generous disability scheme has [illegible] served, in part, as an escape route for employers who want to rid [illegible] of troublesome [illegible].

Prime Minister Ruud Lubbers: 'The Netherlands is sick'

Financially, the system is deemed to be untenable. Already, 900,000 people draw WAO benefits and the number is forecast to pass the 1m mark by 1993. This has prompted Mr Lubbers' centre-left government to propose an uncharacteristically radical overhaul of the system.

In 1990 alone, the state paid out Fl 24bn ($12bn) in disability benefits, the single biggest item of social security spending after old-age pensions. This sum, vast for a country of less than 15m people, is roughly equivalent to the government's annual budget deficit.

Recipients of disability benefit are paid up to 70 per cent of their former salary until they reach the retirement age of 65. It is this open-ended part of the WAO scheme which Mr Lubbers and his cabinet want to change. If the controversial reforms are adopted, disability payments – like unemployment benefit – would end after five or six years. Thereafter, "WAOers" would [illegible] much smaller welfare benefits.

The unions have already vowed to create a "long, hot autumn" if the proposed reforms, unveiled last week, [illegible] implemented. Leaders of the Labour party – which is in coalition with Mr Lubbers' Christian Democrats – are coming under heavy political pressure to withdraw their support for the proposals.

All in all, the disability dilemma is the most pressing domestic problem facing Mr Lubbers and the one political issue with enough potential force to topple his government. Official projections show that the proposed changes to the system could bring savings of Fl 4.4bn in 1994. Another goal, however, is to create incentives for people to go back to work, presumably in a different job, if their disabilities allow.

Unlike the Swedish [illegible], the Dutch have only a few sanctions designed to get people off social welfare rolls. The Organisation for Economic Co-operation and Development recently cited the generosity of the Dutch social welfare payments and noted that "incentives to work are low".

For this reason, the government's attempts to build "dis[illegible]" into the WAO disability scheme are unusual and thoroughly "un-Dutch" – accounting for the storm of criticism over the proposals.

Significantly, the proposed reforms are not based on any ideological reassessment of the limits of the welfare state, but on pure financial need. If the Dutch could afford it, the WAO system would probably never be revised. But the country has little choice if it wants to preserve the welfare state.

To [illegible] so, the Netherlands must increase the number of people holding jobs and, more importantly, who contribute to financing the welfare system.

In 1963, when the welfare state was in its infancy, there were three people in jobs for every recipient of social welfare or old-age pensions. By the late 1980s, the ratio had narrowed dangerously to just slightly more than 1:1.

These figures help account for the country's big budget deficits and its high taxes and social security premiums. "Seen through the eyes of the economist, these are the most important weak spots in the Netherlands' economic system," a government report concluded last year.

Ronald van de Krol

US group studies Tace bid

By Maggie Urry in London

THERMO Electron, the US environmental group, will this week decide whether to increase its offer for Tace of the UK following the claim by Cambridge Electronic Industries (CEI) to have won the bid [illegible] for the environmental control equipment maker.

However, Barings, CEI's merchant bank, said yesterday it was confident that its client's position would stand. Late on Friday, CEI announced it had made an increased, recommended offer for Tace and had irrevocable undertakings to accept the bid from holders of 50.5 per cent of the shares.

CCF Corporate Finance, Thermo Electron's [illegible], said yesterday that the US group would look at the undertakings when CEI's offer document is published later this week, to see if they would remain irrevocable in the presence of a higher or better bid. Then Thermo Electron would decide whether to increase its [illegible].

Barings said yesterday: "They are irrevocable irrevocables. They were [illegible] carefully drafted and signed." Barings said Thermo Electron was free to examine the details of the undertakings.

CEI's offer is of eight new shares for every five Tace shares. It values each Tace share at 300p and the group at £29.9m on the basis of a CEI price of 191½p. Thermo Electron's offer is for 255p in cash for each Tace share, worth £24.9m ($40m) in all.

CEI's announcement came after the stock market closed on Friday.

Thermo Electron is likely to make a statement today urging Tace shareholders not to take any action until the position is clear.

COMPANIES AND FINANCE

Shareholders to receive cash and shares

Stocklake opts for liquidation

By Maggie Urry

STOCKLAKE HOLDINGS, the overseas trading group, is going into voluntary liquidation in [redacted] to return £5.7m of excess cash [redacted] shareholders in [redacted] tax efficient manner.

[redacted] will [redacted] shares in Adam [redacted] Harvey, which owns the trading activities [redacted] of [redacted] and which will seek a Stock Exchange listing, and in Rea Brothers Group, [redacted] listed merchant bank in which Stocklake has a 4.7 per cent stake.

Rea Brothers, like Stocklake, is part of the Salomon family empire held together by cross-shareholdings. About half [redacted] [redacted] shares are held by other Salomon family companies. The family [redacted] trying [redacted] simplify the empire since [redacted] in [redacted] of [redacted] founder, Sir Walter [redacted].

Stocklake estimates that for every 100 shares held investors will receive £133 in cash, 100 A&H [redacted] and [redacted] Brothers [redacted]. Small shareholders can opt [redacted] cash instead [redacted] the Rea Brothers shares.

Using Friday's closing share prices of [redacted] for [redacted] and 34p for Rea Brothers, the A&H shares would be worth about 184p each.

Stocklake says that on a pro-forma basis A&H would have declared earnings per share of 59.3p in the year to March 31, of which 28.7p cannot be remitted to the UK, and a net dividend of 10p.

That suggests an historic p/e of 3.1 or 6 on remittable earnings, and a yield of 7.2 per cent.

The rating is similar to that of Stocklake, based on pre-tax profits for the year to March 31 of £6.3m (£5.7m) and [redacted] per [redacted] of 34p [redacted] [redacted] yesterday. Turnover was £36.9m (£38m). No final dividend is proposed, leaving a total for the year of 5p (18p).

The timetable for the winding-up starts with an extraordinary general meeting to consider the deal on August 13. If approved, the A&H and Rea Brothers shares and 90 per cent of the cash would be distributed on September 16.

Trading should start in the A&H shares on September 17, and the remaining cash should be distributed on October 30.

Holmes investor calls for meeting

By Maggie Urry

THE DISAFFECTED investor group which [redacted] per [redacted] of the [redacted] of Holmes Protection Group, [redacted] security and alarm group [redacted] only [redacted] in London, [redacted] called for [redacted] special meeting of shareholders. At the meeting the group will put resolutions to elect their representatives to the Holmes board.

The group is led by Mr Eric Kohn, [redacted] former [redacted] of Holmes, who wants to be chief operating [redacted] of Holmes, and [redacted] proposes [redacted] Sir Ian MacGregor, [redacted] boss [redacted] British Steel and British Coal, [redacted] be chairman. Mr Kohn says that as well as the 25.4 per [redacted] the group [redacted] the support of holders of another 14 per cent of Holmes.

Holmes has been struggling to restructure $61m of debt, having failed earlier this year to sell [redacted] subsidiary. [redacted] Tom Mayer, chairman, has said that the [redacted] group's [redacted] hindered [redacted] restructuring.

ICI to build paint factory in China

Imperial Chemical Industries is to build [redacted] £13m paint factory in the Guandong province in southern China – the first ICI manufacturing plant [redacted] the Chinese mainland. [redacted] plant will have [redacted] capacity of 15m [redacted].

Black Arrow halved to £1.87m [redacted] new investment in industry slows

By Nigel Clark

THE LOW level [redacted] new investment [redacted] industry [redacted] profits at Black Arrow, [redacted] office furniture group, down [redacted] £1.87m, against £3.75m.

During [redacted] to March [redacted] the dry cleaning franchise business was liquidated and provisions for [redacted] had [redacted] included [redacted] the [redacted] an extraordinary charge [redacted] this.

A further charge of £48,000 related to the sale of a company with an offsetting credit of £150,000 from provisions for legal costs making a total extraordinary charge of £186,000.

The leasing division's results were ravaged by bad debts and provisions of about £1.2m were needed.

Earnings per share came out at 3.01p (8.44p). A halved final dividend of 1.8p is being recommended for a total payment of 2.1p (4.2p).

Mr Arnold Edward, chairman, said that many clients had been forced to cancel or defer major projects until the economy improved.

Turnover declined to £23.6m (£26.2m) split as to furniture manufacturing £21.7m (£23.5m), leasing and instalment finance £1.64m (£1.88m) and retail and franchising £278,000 (£882,000).

After tax of £1.07m (£1.36m) and minorities of £55,000 (£45,000) profit was £745,000 (£2.33m).

Tibbett buys M and S food distributor

Tibbett [redacted] Britten Group is further reinforcing [redacted] UK core activities with the acquisition of Regional Distribution Centre, an Exeter-based company which is dedicated to serving [redacted] and Spencer.

The purchase, for £5.3m cash, is from Transfleet Services, [redacted] is jointly owned by Lex Service [redacted] Lombard North Central.

TBG will also take over the [redacted] for the distribution [redacted] merchandise to the M and S retail stores in the south west.

Current contract turnover [redacted] about £4m a year.

General Motors to shed 6,000 in North American plant closures

By Nikki Tait in New York

GENERAL MOTORS is to close two assembly plants in North America, in Ontario and California, with the loss of about 6,000 jobs overall. The moves come as the car manufacturer attempts to bring its productive capacity more closely into line with demand.

The Scarborough Van Plant, in Canada, will be closed before the end of summer 1993, according to GM. In October 1989 the company announced that it would consolidate production of full-sized vans from Scarborough and Lordstown, Ohio, to Flint in Michigan.

It said that, after reviewing "future product [redacted] plans", [redacted] that there was no role [redacted] Scarborough.

The plant employs [redacted] 2,700 people, producing [redacted] sized Chevrolet and GMC [redacted].

The Californian plant, at Van Nuys, will stop operating next year when 1993 model year carline production is finished. At present, the plant employs 2,600 people, with a further 900 currently "on lay-off".

GM said it had originally hoped to convert the facility to a flexible [redacted] plant but that [redacted] not proved feasible.

French constructor sells Davy [redacted]

By William Dawkins in Paris

Spie Batignolles, the construction and plant engineering unit of France's Schneider group, has accepted Trafalgar House's offer for its 14.5 per cent stake in Davy Corp, the troubled UK engineering group.

As expected, Spie Batignolles will take a FFr230m (£21.9m) loss on its Davy shares, for which it has made provision of FFr100m in last year's accounts. Trafalgar House's 95p per share offer values Davy at £114m and Spie Batignolles's stake at £16.53m. The French company bought its stake in Davy for 235p per share 15 months ago, in exchange for its Clecim metallurgical engineering subsidiary.

Spie Batignolles has already warned that the Davy setback, the economic slowdown and doubts over the payment of some contracts could adversely affect this year's profits.

£18m debt led Hughes Food into receivership

By Chris Tighe

An £18m debt led to Hull-based Hughes Food Group being placed in receivership last Thursday.

The USM-quoted food supply and services group was placed in the hands of Coopers and Lybrand Deloitte following discussions between the group's directors and a syndicate of lenders, comprising UK and overseas banks and led by Samuel Montagu.

Since Mr Harry Roberts, formerly a senior executive with Grand Metropolitan, was appointed chairman and chief executive of Hughes last October, the group has made a number of disposals of non-core businesses acquired during the swift expansion which followed its arrival on the USM in July 1986.

But an attempted restructuring involving a debt to equity conversion proved unsuccessful and when dealings in the group's shares were suspended last Wednesday they stood at 4p. They were originally placed at 20p and peaked at 157p in 1987.

Mr Mike Moore, one of the two joint administrative receivers, said 17 of the 22 companies which comprise the group were not subject to insolvency proceedings. He hoped to sell them as profitable going concerns. "Essentially we have here a good company trading at a profit but which is having to service a debt burden created by previous management problems," he said.

No redundancies are planned at present among the group's 700 employees, working in companies in England, Scotland, and Northern Ireland. The receivers said they were already getting inquiries from prospective purchasers.

The group's founder Mr John Hughes, described in the early 1980s expansionary phase as a "quintessential USM entrepreneur", resigned as chairman in February. In March, the group announced an interim pre-tax loss of £6.82m; there was also an extraordinary charge of £5.48m.

The group originated in food machinery reconditioning and cold storage but diversified into [redacted] and [redacted] foods manufacture, [redacted] tion and development.

Correction

Brasway

Pre-tax profits of Brasway, the West Midlands engineer, dropped from £2.71m to £513,000 in the year ended April 27 1991. In Friday's edition the figures given were incorrect.

INTERNATIONAL CROSS-BORDER DEALS

US companies in the limelight among international deals

By Brian Bollen

LAST WEEK'S biggest international deals all featured US companies as targets.

ABN Amro Bank underlined [redacted] commitment [redacted] international expansion with its first major acquisition since it was [redacted] in August [redacted] year. The purchase of Talman Federal Savings [redacted] Loan of Chicago will almost double its size in Illinois and make it one of the biggest financial companies in the US. The announcement came just two weeks after ABN Amro took full control of European American Bank.

Equitable Life featured in two transactions. In the first, French insurer Axa clinched the sizeable US presence it has been coveting by agreeing to inject £1bn into Equitable. Axa will initially take up to 49 per cent, and will eventually be free [redacted] take majority control.

Fast-diversifying Japanese consumer credit company, Nippon Shinpan, is breaking into the insurance business by buying 70 per cent of Equitable's loss-making Japanese arm.

Proof that it is still possible to exit from buy-outs came with the completion by North West Water of the purchase of Wallace & Tiernan of the US.

W&T was the subject of a $64m leveraged buy-out from Pennwalt Corp just over two years ago.

The next major buy-out from a receiver looks like being that of John Fairfax. The bid for the failed Australian media group by an international consortium, including Mr Conrad Black and Mr Kerry Packer, triggered a review of Australia's media ownership laws.

Poland continues to attract foreign capital. PepsiCo's purchase of a large stake in the Wedel chocolate company follows the announcement of its own and rival Coca-Cola's plans for [redacted] investment there.

In the week of President Gorbachev's visit to London, British Gas agreed in principle to a joint venture to develop an oil-field in the Soviet Union.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Axa (France)	Equitable [redacted] (US)	Insurance	£600m	Axa clinches US presence
ABN [redacted]	Talman [redacted] (US)	Banking	£258m	Not the big deal expected
Tourang [redacted] Consortium	[redacted] Fairfax (Australia)	Publishing	£830m	Growing interest in Fairfax
[redacted] (UK)	[redacted]	[redacted] equipment	£78m	Acquisition completed
Mitsubishi (Japan)	Iron [redacted] (Canada)	Mining	£40m	Mitsubishi takes 20%
[redacted] (US)	[redacted] (Poland)	Confectionery	£14m	Initial 40% stake
Bank [redacted] (Japan)	[redacted] (UK)	Banking	£10.9m	Offer for outstanding stake
Laporte (UK)	[redacted] (France)	Reclaim technology	n/a	European base for Laporte
Lebranchu (France)	Coventry [redacted] (UK)	[redacted] components	n/a	'Lebranchu tapping new markets'
Nippon Shinpan (Japan)	Unit [redacted]	Insurance	£87m (est)	NS buying 70%

Source: FT Mergers & Acquisitions International

German companies looks east

By Katharine Campbell in Frankfurt

GERMAN mergers and acquisitions business has been heavily [redacted] in the new eastern states in the first half of this year, with activity in the west slowing markedly, according to [redacted] compiled by M&A International, a consultancy based in Königstein outside Frankfurt.

Foreign companies completed 247 deals in Germany to the end of June, compared with 242 in the same period a year ago, but this year 74 of those were in the east.

By country, the Swiss have been the most active, with 14 eastern transactions. The French [redacted] completed 12 deals and the Americans 10. M&A does not disclose the relevant values.

[redacted] companies meanwhile purchased a total of 589 firms domestically, well up on the 373 in the same period a year ago, but almost half [redacted] those ([redacted]) were in the east. In the rest of the country, a cooling of activity has [redacted] reflected in lower prices.

Indicating however that Germany's preoccupation with events in the east of the country may be abating, domestic companies effected 117 transactions abroad, compared with 77 in the first half of 1990 and 95 in the same period of 1989.

M&A notes a special interest in France, where medium-sized companies are now [redacted] the larger corpo[redacted]. The Germans bought more than twice as many (24) French entities as in the first half of last year (11).

The Swiss meanwhile have been buying into the EC market via Germany, leading, with the US, foreign inward investment. The US and Switzerland each accounted for 44 German companies changing hands.

Cape makes £4.3m Dutch purchase

Cape has purchased Cleton Insulation, a Dutch industrial thermal insulation company for Dfl 14.4m (£4.3m) cash.

Cleton, which also has subsidiaries in Belgium and Germany, was purchased from NBM-Amstelland.

[redacted] tangible [redacted] at [redacted] 31 1990 amounted [redacted] Dfl 10.3m (£3.1m).

Turnover and pre-tax [redacted] Dfl 61.2m [redacted] Dfl [redacted] respectively.

COMPANY NEWS IN BRIEF

API: [redacted] acceptances from NMC offer in respect of ordinary shares represent just 0.36 per cent of API share capital.

NOREX AMERICA, 49.7 per [redacted] owned by Norex, [redacted] its 80 per [redacted] in Norgulf Shipping for $5.1m (£3m).

PRESTWICK HOLDINGS has acquired Band Electronics, a privately-owned electronic components concern. Consideration is 300,000 Prestwick ordinary shares and £100,000 cash. Turnover of Band was £5m in 1990.

[redacted] MOAT HOUSES: Rights [redacted] 7.35 [redacted] convertible [redacted] preference [redacted] taken up [redacted].

SIMON ENGINEERING has, through [redacted] access division, signed a distribution and joint [redacted] agreement with the [redacted] Corporation [redacted] Japan, [redacted] which access equipment made by Simon in the US and Europe will be imported, [redacted] and serviced in Japan.

WARNER HOWARD is paying £840,000 cash for Derek [redacted] (Food Machinery), the Lancashire-based importer and distributer of commercial catering equipment. Wright made a £149,000 pre-tax profit on £929,000 turnover for year to February 28 1991.

FIRST SPANISH Investment Trust: Net asset value per share declined by 11.2 per cent to 85.2p during [redacted] [redacted] May 31 [redacted] [redacted] at £30.15m ([redacted]). Net [redacted] nue amounted to [redacted] (£313,503) and there [redacted] a dividend of 1p [redacted] share, payable [redacted] 4.

NWA bids for Pan Am air routes

By Nikki Tait in New York

NORTHWEST Airlines, the fourth largest US carrier, has entered the bidding for parts of Pan Am, the ailing airline which filed for bankruptcy protection earlier this year.

NWA said it would offer $20m for Pan Am's Detroit-London (Gatwick) route, or $35m if a route between Los Angeles and Mexico City was included as well.

Pan Am's Detroit-London routes were included in the package of assets – covering about one-fifth of its flight capacity – which the airline agreed to sell to Delta for $260m. This deal still needs regulatory and bankruptcy court approval.

Since then, Delta has said it is considering investing in Pan Am. Such a move would leave the latter concentrating on its profitable Latin American routes and Miami hub and would appear to shut out United Airlines, which has put in a bid for these routes.

Salomon to join Italian train venture

By Haig Simonian and David Barchard

SALOMON BROTHERS is to become a founding shareholder in TAV, the new company which is developing a high-speed train network for Italy, at a cost of around L27,500bn ($21bn).

It is taking a 1.5 per cent holding for L1.5bn.

The US investment bank is one of around half a dozen non-Italian financial institutions joining the venture. Other foreign participants, which will have stakes of between 1.5 and 2.5 per cent apiece, include Credit Lyonnais and Banque Nationale de Paris of France, Swiss Bank Corporation and Citibank.

The TAV project, which was formally launched in Rome on Friday, is designed eventually to create a high-speed train network between Turin, Milan, Venice and Naples, bringing Italy up to date with developments in some neighbouring European countries.

Mr James Massey, chief executive of Salomon Brothers Europe, said Salomon's investment demonstrated its commitment to Europe and its belief in co-operation between government agencies and the private sector to improve Europe's infrastructure.

TAV is 40 per cent owned by Ente Ferrovie dello Stato (FS), the [illegible] national railway company.

Banesto declines 38% on lower asset sale income

By Peter Bruce in Madrid

BANCO ESPANOL [illegible] Credito [illegible], one of Spain's largest commercial banks, has reported first-half pre-tax profits in its financial group of Pta24.7bn ($225m), down 38 per cent on the first six months of 1990.

The decline in profits will be viewed as a healthy development since the setback mostly stems from a Pta17.5bn decrease in income from asset sales. Last year Banesto boosted profits from the sale of part of its large cement holdings.

Reflecting [illegible] tion on purely banking business [illegible] Banesto [illegible] fee income had in[illegible] 45 per cent in the first six months of 1991 and its intermediation margin grew 14.3 per cent.

The figures do not include results from Banesto's industrial holding company, the Corporacion Industrial y Financiera, [illegible] which the bank transferred all [illegible] industrial holdings last [illegible] in an attempt to disentangle the group's banking and industrial activities.

Disposals [illegible] the Corporacion have continued in the past [illegible], with the group selling some 16 per cent of its portfolio as it attempts to move out of industrial sectors in which it is not competitive.

In other first-half announcements, meanwhile, Banco Hispano Americano and Banco Exterior, the state-owned commercial bank, both posted gains for the first six months.

Hispano, which is shortly to merge with its bigger rival, Banco Central, said net profits for the first half had risen 18.8 per cent to Pta18.2bn. The bank has been recovering from a costly decision, made a year ago, to enter a banking sector scramble to offer clients Spain's [illegible] interest-paying current accounts.

Banco Exterior, which is leading an operation [illegible] merge all of the state's financial institutions, said its first-half pre-tax profit had risen 19.7 per cent to Pta12bn, a 10.4 per cent increase in operating profits, which totalled Pta37.3bn.

Rand Mines stages recovery

By Philip Gawith in Johannesburg

TIGHT CONTROL of costs, a higher rand gold price and increased production allowed the four gold mines managed by the Rand Mines group to show a significant recovery in the June quarter.

After-tax profits totalled R21.3m ($7.4m) in the quarter, against a R30.4m loss in the previous quarter. Over the previous year, Rand Mines's gold operations had made cumulative after-tax losses of R57.7m.

The recovery mostly stems from significant rationalisation efforts at the group's largest mine, Harmony.

All four mines in the group made a working profit in the latest quarter. Only ERPM made an after-tax loss. Gold production in the group was 8.6 per cent up at 10,254kg; the average gold price received was 2.6 per cent higher at 33,630 per kg; and total costs, at R320m, were down by about 8.5 per cent.

Harmony had a particularly good quarter, turning a previous loss of R21m – largely the function of large severance payments – into a profit of R14m. This was despite a 37 per cent fall in underground gold production to 4,745kg in the quarter.

The mine benefited from its newly started surface treatment operations which contributed 398kg of gold in the quarter.

The Blyvooruitzicht [illegible] Durban Deep mines both recorded improved profits.

Blyvooruitzicht made R10.5m after tax – compared with breaking [illegible] time.

The Durban Deep mine increased [illegible] to [illegible] from R2m.

The group has sold about one-third of its production (10,000kg) [illegible] over the next three quarters [illegible] prices up to R37,000/kg.

Stefanel to set up franchised chain in Romania

By Haig Simonian in Milan

STEFANEL, the Italian clothing group, has reached agreement with Universal, a Romanian shop management concern, to establish a chain of franchised clothing stores.

The deal should lead to the opening of the first seven outlets by the end of this year, with sales forecast to reach around 100,000 items, worth at least L5bn, in the first year of operation.

Stefanel's first Romanian store, located in Bucharest, has already sold over 7,000 items within a month of opening, the [illegible] said.

[illegible] Romanian plans are part of a series of [illegible] Stefanel has been pursuing with partners in former Communist-run east European countries.

The accords should create a franchise chain of around 60 [illegible] within [illegible] years.

European group wins more time for de Havilland bid

By Bernard Simon in Toronto

THE CANADIAN government has extended for almost two months the deadline for a European commuter aircraft consortium, comprising Aerospatiale of France and Italy's Alenia, to finalise a revised bid for Toronto-based de Havilland of Canada.

The European group was initially due to respond by last Saturday to Ottawa's concerns that its initial bid for de Havilland did not provide a "net benefit" to Canada. But Investment Canada, the government's foreign investment watchdog, said late on Friday that the deadline had been extended to September 9.

An Investment Canada official said the extra time was warranted because "progress has been made" by the consortium in meeting conditions set by the government. He said the agency needed more time "to allow for adequate consideration of a new business plan and other related representations".

Aerospatiale and Alenia are proposing to buy de Havilland from the US aircraft maker Boeing, which has owned it since the company was privatised in 1986. The government's objections to the Europeans' initial bid include the absence of a local partner, concern about de Havilland's technology remaining in Canada and the level of government financial support demanded by the buyers. Details of the offer have not been disclosed.

US QUARTERLY RESULTS

BELL ATLANTIC, the US regional telephone holding company, has registered second-quarter net earnings of $355.1m or 91 cents a share, down from $382.8m or 91 cents last year. Operating revenues were $3.08bn against $3.07bn.

Net earnings after six months were $708.7m or $1.82 a share against $718.1m or $1.82 last time. Revenues were $6.08bn against $6.09bn.

BROWNING-FERRIS, the US waste management company, reported a fall in second-quarter net income to $58.9m or 38 cents a share, from $82.4m or 54 cents a year ago, despite a rise in revenues to $805.2m from $767.6m.

First-half net income was $177.1m or $1.15 a share which compares with a loss for the first half of 1990 of $77.5m, equal to 51 cents a share. Revenues were $2.37bn against $2.17bn a year ago.

KELLOGG, the world's largest convenience food producer, turned in second-quarter net earnings of $152.3m or $1.26 a share, up from $135.7m or $1.13 a year ago, on sales of $1.41bn, compared with $1.26bn.

Net income after six months totalled $315.4m or $2.61 a share against $232m or $1.92. Sales were $2.84bn against $2.47bn.

SOUTHWESTERN BELL, one of the seven regional holding companies formerly owned by AT&T, posted second-quarter net earnings of $172.6m or 57 cents a share, against $262.5m or 87 cents last year. Latest earnings included an extraordinary charge of $81m. Operating revenues were $2.24bn against $2.17bn.

First-half net income fell 22 per cent to $396.5m from $510.3m. Revenue rose 2 per cent to $4.39bn from last year's $4.30bn.

Compiled by Rivka Nachoma

Durban Roodepoort Deep, Limited

(Incorporated in the Republic of South Africa) Registration No. [illegible]

ISSUED CAPITAL: [illegible]

OPERATING RESULTS

[illegible]

For and on behalf of the board,
J. P. S. TURNER, Chairman
R. VOS, Managing director

19 July, 1991

East Rand Proprietary Mines, Limited

(Incorporated in the Republic of South Africa) Registration No. [illegible]

ISSUED CAPITAL AND SHARE PREMIUM: [illegible]

OPERATING RESULTS

[illegible]

For and on behalf of the board,
J. P. S. TURNER, Chairman
K. F. W. EICK, Managing director

19 July, 1991

Blyvooruitzicht Gold Mining Company, Limited

(Incorporated in the Republic of South Africa) Registration No. [illegible]

ISSUED CAPITAL: [illegible]

OPERATING RESULTS

[illegible]

For and on behalf of the board,
J. P. S. TURNER, Chairman

19 July, 1991

Harmony Gold Mining Company Limited

(Incorporated in the Republic of South Africa) Registration No. [illegible]

ISSUED CAPITAL: [illegible]

OPERATING RESULTS

[illegible]

For and on behalf of the board,
J. P. S. TURNER, Chairman
K. F. W. EICK, Managing director

19 July, 1991

GENERAL NOTES

[illegible]

DIVIDEND ANNOUNCEMENTS

[illegible]

By order of the boards
Rand Mines (Mining & Services) Limited
Secretaries
per T K Savage

Johannesburg
18 July 1991

United Kingdom secretaries
Viaduct Corporate Services Limited
40 Holborn Viaduct
London EC1P 1AJ

United Kingdom registrars and paying agents
Registration office
Barclays Registrars Limited
Bourne House, 34 Beckenham Road
Beckenham, Kent BR3 4TU

Bearer reception office
Barclays Bank PLC
Stock Exchange Services Department
168 Fenchurch Street
London EC3P 3HP

INTERNATIONAL CAPITAL MARKETS

UK GILTS

New issue doubts sour party mood

THE unexpected announcement of a £1bn tranche of UK government bonds in a far from popular maturity range caused a sudden decline in gilt prices on Friday night, against the trend earlier in the week.

The announcement was part of the Bank of England's move to issue an expected £15bn or so of gilts during this financial year, to fund the [illegible] deteriorating public [illegible] account.

However, [illegible] up a reminder [illegible] the susceptibility of the market to new funding issues, which can in general be expected to push down prices and increase yields.

What worried [illegible] traders on Friday night [illegible] not the size of the issue but the stock itself – a 9 per cent conversion loan due in 2011. It will be available for dealing from today.

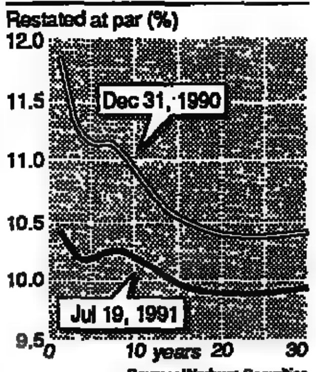
The bonds fall in a maturity range that is not particularly liquid. This led to gloom in some sections of the market where it [illegible] thought the [illegible] would be far from favoured among investors.

The bonds carry an issue price of 92.50, of which 30 per cent will be payable [illegible]ately, 30 per cent payable on August 19 and a further 32.5 per cent [illegible] Septembe[illegible]

Reflecting the disquiet, the price of existing stock of this type fell by nearly half a point to 91⅞ immediately after the Bank's announcement. There was also a fall in prices of other long-dated securities, which pushed them back to virtually the same levels as at the beginning of the week.

UK gilts yields

Restated at par (%)



Source: Warburg Securities

Prior to the Bank's unveiling of the issue on Friday, long-dated bonds had performed relatively well during the week, on the back of hopes about falling UK inflation over the next year.

Short-dated bonds, however, showed little rise over the week, as traders became less hopeful about the imminence of further cuts in official UK interest rates.

The firm state of the market had led earlier in the week to the Bank being able to sell the complete stock of bonds it had announced on July 12.

These were two tranches, each worth £250m, of 12 per cent exchequer stock due 1998 and 9.5 per cent conversion stock due 2005.

A reminder of the extent to which the Treasury is running into financing problems on its public [illegible] account is the £6.9bn borrowing requirement for the first three months of 1991-92, the biggest quarterly figure since 1981.

The government expects to recover lost ground later in the year, as local authorities make headway in collecting delayed poll-tax payments, and as it feels the benefit of the higher VAT charges announced earlier this year.

However, fe[illegible] [illegible] expect the government to keep to its forecast that the total borrowing requirement for the year will be restricted to £8bn, and many believe this may rise to as much as £12bn.

One specific worry for the Treasury [illegible] related [illegible] likely delay in selling part of the government's stake in British Telecom, due to a row over the regulatory aspects to UK telecommunications policy. A delay until mid-1992, [illegible] beyond, could easily lop £3bn-£4bn off the government's estimates for [illegible] likely receipts this financial year from privatisation deals.

In spite of concern over the borrowing issue, the market was in a fairly calm mood last week about general economic prospects, with the statistics of the past few days supporting the notion that a rapid recovery from the year-long recession is unlikely.

Gilt practitioners took heart from evidence from Thursday's labour market statistics showing a reduction in the annual rate of rise in average earnings across the economy, from 8¾ per cent in April to 8½ per cent in May.

In services, which accounts for more than two-thirds of the workforce, the downward pressure on wage settlements has been still more marked.

While the annual rate [illegible] increases in average manufacturing earnings in May was 8[illegible] per cent, the same as the revised figure for April, the figure for services declined from a revised 8¼ per cent to 8 per [illegible]

The figure for manufacturing has come down from 9¼ per [illegible] in January, [illegible] percentage point decline, [illegible] for services the number has dropped by a full 1½ percentage points.

The data [illegible] up [illegible] that [illegible] inflation has been falling rapidly, and that the Treasury's [illegible] that retail-price inflation will be down to a yearly rate of 4 per cent by December [illegible] entirely [illegible]ble.

Peter Marsh

US MONEY AND CREDIT

Investors face inflationary dilemma

ONE ECONOMIST, pondering the mood on Wall Street, asked a deceptively simple question. For the past 16 months, he noted, the long bond yield had [illegible] between 8 and 9 per cent – aside, that is, from the odd, very brief [illegible]. When a break-out comes, as presumably it must, would it be at the upper or lower end of this range?

That, in a nutshell, remains the dilemma besetting investors. As signs that the recession bottomed out in the spring are reinforced, the new question centres on whether the recovery will be extremely mild and accompanied by stable prices, or whether, conversely, an uncomfortable head of inflationary [illegible] may build up in the months ahead.

The official view, given by Mr Alan Greenspan, reappointed to Congress last week for another four years as chairman of the Federal Reserve, is that something approaching the [illegible] is more likely. On one hand, in his semi-annual report, the Fed chairman suggested he did not expect the economy to fall back into recession – the "double dip" theory – although he also implied [illegible] recovery was proving [illegible] than robust.

On the other, he [illegible] that inflationary pressures were moderating, with the expected level of consumer price inflation put at 3.25-3.75 per cent for this year and 3-4 per cent in 1992. This sort of stability would, in fact, conceal progress in the "core" rate (which excludes fuel and food prices), because of the help given to the inflation data by the sharp [illegible] in energy costs in the first half of 1991.

The Fed, Mr [illegible] continued, was conducting its monetary policy from a "posture of watchful waiting". That, the market quickly concluded, meant there would be no action on the interest rate front for many months, possibly for the remainder of 1991. Bond prices barely budged on the remarks and the long bond yield by the end of the week stood at 8.47 per cent, virtually unchanged from 8.43 per cent a week earlier.

Such soothing words notwithstanding, some worries persist. The inflation data rolled out on Wednesday, and suggested that the core Consumer Price Index rose by four-tenths of a per cent in June – somewhat above analysts' expectations. That said, second-quarter inflation now stands at an annualised rate of just [illegible] per cent, a marked improvement from the 6.8 per cent seen in the first three months.

According to analysts at James Capel: "If the picture of the economy on the supply side looks good, the same level of confidence is not justified on the demand side." There is widespread agreement that [illegible] have been run down quite significantly, and this, together with increased exports, have helped boost production. The main question is whether there is now a fundamental improvement in domestic demand – which, in turn, raises the well-aired issue of America's credit crunch.

For the bond markets, of course, these uncertainties are still compounded by the matter of the government's own borrowing needs – or, as one otherwise bullish circular phrased it this week, "Treasury supply is an obstacle to bond rally."

The forthcoming week, then, seems set to continue this unending search for some better sense of how the economy's recovery is progressing. Most attention will focus on the second-quarter GNP figures, due on Friday. Forecasts vary on what should be expected; the pundits generally predict a return to growth during the three-month period, after the October-March decline, with estimates of the pace (on an annualised basis) range from around 0.7 per cent to 1.2 per cent. In short, it is not the direction, but the pace which is now the issue.

Nikki Tait

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	5.63	[illegible]	[illegible]	11.00	[illegible]
Three-month Treasury bills	5.73	[illegible]	[illegible]	7.85	[illegible]
Six-month Treasury bills	5.88	[illegible]	[illegible]	7.75	[illegible]
Three-month prime CDs	6.05	[illegible]	[illegible]	9.01	[illegible]
30-day Commercial Paper	5.97	[illegible]	[illegible]	[illegible]	[illegible]
90-day Commercial Paper	5.92	[illegible]	[illegible]	10.05	[illegible]

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wks ago
Seven-year Treasury	[illegible]	[illegible]	8.13	8.13	8.16
20-year Treasury	[illegible]	[illegible]	8.43	8.43	8.51
30-year Treasury	[illegible]	[illegible]	8.47	8.43	8.51

Source: Salomon Bros (estimates).

Money supply: In the week ended July 8, M1 fell by $5.2bn to $858.7bn.

NRI TOKYO BOND INDEX

December 1983 = 100	18/07/91	Average yield (%)	Last week	12 wks ago	26 wks ago
Overall	156.41	7.11	156.01	154.09	151.95
Government Bonds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Municipal Bonds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Govt.-guaranteed Bonds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bank Debentures	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Corporate Bonds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen Denom. Foreign Bonds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Government 10-year †	6.57		6.71	6.85	6.47

† Estimated par yield

Source: Nomura Research Institute

GLOBAL BOND PORTFOLIOS

Investors reduce German exposure

INVESTORS have adjusted their global bond portfolios recently for two reasons.

First, they are concerned about rising inflation in Germany and so have reduced their exposure to the German and Dutch government bond markets.

Second, many are wondering whether the dollar will continue to strengthen against the European currencies and hence whether they should increase or reduce their dollar [illegible].

Whittingdale, the fund management group, had about 15 per cent of its international fund invested in [illegible] six months ago.

However, it has switched out of any D-Mark exposure because of worries that "reunification will restrict German economic growth for a considerable period, weakening the currency".

The main concern is that while inflation appears to be falling in other industrial economies, in Germany, inflation is expected to rise from 3.5 per cent to more than 4 per cent.

In common with many other fund managers, Whittingdale has switched this money into US Treasury bonds and French government bonds. The group's international fund has nearly 60 per cent of its assets in US Treasury bonds, 9 per cent in Canadian government bonds, 20 per cent in gilts and 8 per cent in French government bonds.

In the short-term, many fund managers expect to see a further strengthening of the dollar and of the yen, making US Treasuries and Japanese government bonds an attractive home for their funds.

Most regard the dollar's recent setback as a temporary correction and think the US currency will continue to strengthen against European currencies.

However, Mr Nick Henderson, head of fixed income at Gartmore, is less bullish about the US.

As a result, Gartmore's international fixed income fund has reduced its holding in US Treasuries from 40 per cent to 25 per cent recently.

However, Mr Henderson believes that the yen will continue to appreciate against sterling, providing currency gains for holders of Japanese government bonds.

Currency gains aside, most bond investors expect international bond markets to rally towards the end of this year as inflation levels decline in most of the large economies.

On the European front, fund managers such as Gartmore expect to see the bond markets pick up again towards the end of the year.

Both France and the UK are expected to provide the highest returns over the next year, though investors point out that neither market is free of political risk.

Sara Webb

FT/AIBD INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. on day	Chg. on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. [illegible] CONVERTIBLE BONDS: [illegible] WARRANTS: [illegible]

Closing prices on July 19

INTERNATIONAL CAPITAL MARKETS

SYNDICATED LOANS

Turkey returns after year-long absence

THE REPUBLIC of Turkey has returned to the syndicated loan market with a three-year $200m loan after an absence of a year. However, some bankers have suggested that the loan may prove difficult to syndicate given weak demand for medium-term Turkish loans.

Mitsubishi Bank and Sumitomo Bank, the joint arrangers, are currently putting together an underwriting group and offering tranches of $15m-25m to banks. The margin is 90 basis points over the London interbank offered rate (Libor), plus fees, though these have not yet been disclosed.

Turkish borrowers refrained from using the syndicated loan market during the Middle East conflict, mainly because Turkey was considered an unacceptable risk and so terms for loans were unfavourable.

However, with the conclusion of the Gulf war in February, several Turkish borrowers returned to the market. These include Turkiye Is Bankasi, Turkey's largest privately owned commercial bank, which arranged a $100m one-year facility to finance exports and Turkiye Petrol Rafinerileri (Tupras), which arranged a $100m one-year import financing facility to cover oil imports. One banker who arranges syndicated loans for Turkey said that while plenty of banks were willing to participate in one-year facilities, far fewer were willing to participate in medium-term loans to Turkey.

The Republic of Turkey last tapped the syndicated loan market in June 1990, with a two-tranche $300m loan. The margin over Libor then was 85 basis points for the four-year tranche, and 100 basis points for the five-year tranche, with fees of 40 basis points.

Turkey [illegible] a regular borrower in the international capital markets. One banker involved in the deal said that Turkey usually borrows between $400m and $600m [illegible] in the capital markets.

The Turkish government estimates it [illegible] $5bn in revenue [illegible] the Iraqi oil pipeline and [illegible] during the Middle East [illegible]. However, [illegible] loans [illegible] from donors will cover half [illegible] the projected $4bn required in 1991 to [illegible] Turkey's [illegible] foreign debt, according to the Turkish Treasury.

So far this year, Turkey has issued [illegible] DM350m five-year bond, announced in May, and is considering whether to follow up its syndicated loan with [illegible] Yankee bond – a dollar-denominated bond issued in the US market – this autumn.

Meanwhile, bankers expect [illegible] steady flow [illegible] Turkish loans to continue over the next few months given the level of pent-up demand [illegible] during the Gulf war when the market was virtually closed to Turkish borrowers.

■ Household Finance (HFC) has signed [illegible] £100m four-year revolving credit with Morgan Grenfell [illegible] the [illegible] credit facility [illegible] replace [illegible] Multi-Option Facility (Mof) which expired recently, and will be used for general corporate purposes.

The margin is 45 basis points over Libor and there is a commitment fee of 22.5 basis points on the undrawn amount. Participation [illegible] from [illegible] points.

Many British companies took [illegible] Mofs in the late 1980s as a form of cheap insurance in case they needed to draw on extra funds. The Mofs provided a range of competitive standby funding options and were often arranged on very favourable terms for the borrowers.

In the case of HFC, the Mof was a five-year £100m credit with a committed margin of 15 basis points and a standby fee of 10 basis points – well below current pricing levels as the new credit facility illustrates.

Sara Webb

EUROMARKET TURNOVER ($m)

Primary Market

	[illegible]	Conv	FRN	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	13,077.[illegible]
[illegible]	1,697.3	30.0	140.0	15,[illegible]
Other	[illegible]	[illegible]	530.8	6,731.7
Prev	[illegible]	0.0	[illegible]	[illegible]

Secondary Market

	[illegible]	[illegible]	[illegible]	[illegible]
US$	19,002.4	770.0	6,667.5	9,981.8
Prev	[illegible]	764.2	6,489.6	10,134.9
Other	[illegible]	1,182.9	3,597.4	45,137.2
Prev	30,[illegible]	844.9	3,087.0	52,000.3

	Cedel	Euroclear	Total
US$	19,130.4	33,355.3	52,485.7
Prev	20,608.9	30,322.6	50,931.5
Other	35,352.0	55,491.2	90,843.2
Prev	38,037.3	59,319.8	97,357.1

Week to July 18, 1991. Source: AIBD

INTERNATIONAL BONDS

Euromarkets put brave face on unwelcome questions

THE "polite inquiry" by Britain's [illegible] Fair Trading into new issue practice [illegible] the Eurobond market comes at a sensitive time. Having flourished as an offshore arena, the market [illegible] now trying [illegible] and defend its position under a new European Community regulatory regime.

Firstly, the Association of International Bond Dealers, [illegible] regulatory body for the Eurobond [illegible] in the UK, [illegible] working [illegible] have its rule book [illegible] by the European Commission. AIBD is concerned [illegible] even the passing interest of the UK competition watchdog could cause the European Commission [illegible]tition authorities [illegible] look again [illegible] the Eurobond [illegible].

This [illegible] cloud the task [illegible] having the AIBD rule book [illegible] by the officials at DG [illegible] – the department [illegible] the European Commission [illegible] concerned with competition policy. The [illegible] of approval is nearing its final [illegible] and the AIBD is hoping for a "[illegible] comfort" from [illegible] EC before the year-end and [illegible] not [illegible] any last-minute hitches.

Hence the AIBD is keen to point [illegible] that its rule book does not cover [illegible] issue syndication and allotment, the [illegible] in which [illegible] OFT [illegible] interested. This [illegible] to the International Primary Markets Association, a [illegible] association which represents the leading new [illegible] firms.

IPMA in turn points [illegible] that it [illegible] recommendations rather than rules. These have to be approved unanimously by [illegible] IPMA board and are cleared by the OFT before they are published.

Secondly, [illegible] AIBD and IPMA [illegible] fighting proposed amendments to the draft Investment Services Directive (ISD), which could drive securities business back on to domestic markets.

The ISD was intended to give securities firms a "single passport" to do business across the European Community to match that given to banks under the Second Banking Directive. However, a number of European governments, led by the French, have proposed that trading of securities should be restricted to "regulated markets" – in the name of investor protection.

The Eurobond would not qualify as a [illegible] market, primarily because it has no formal listing requirements. There are [illegible] that even an initial, polite inquiry by a competition watchdog could provide ammunition for those [illegible] want to [illegible] trading outside "regulated markets".

The French amendments [illegible] firmly [illegible] by many other governments, including the UK. The commission also favours allowing [illegible] to continue dealing [illegible] from regulated [illegible]. A [illegible]mise tabled by the Dutch proposes to allow trading of securities away from a regulated market – and therefore in the Eurobond market – [illegible] long as the investor [illegible] given explicit authorisation.

The unpalatable alternative [illegible] the Eurobond market would have to introduce formal listing requirements [illegible] qualify as a "regulated market". The [illegible] of the AIBD [illegible] that this would offer no advantages to market participants. It could also mean that Eurobond firms would [illegible] submit to tough disclosure requirements also being proposed by the French and other southern European governments – known collectively as the "Club Med" – as part of the ISD.

While Eurobond trades currently have to be reported through the AIBD's Trax reporting system within 30 minutes, Eurobond firms are not required [illegible] publish price or volume information.

Trax has the capacity to carry "real–time" [illegible] and volume information, but this has always [illegible] vigorously resisted by market participants. They [illegible] the Eurobond market is primarily a "professional" market, dominated by sophisticated investment institutions, so investor protection is unnecessary. The AIBD bowed to this view and abandoned plans for screen-based price quotations as long ago as 1987. Hence the Eurobond market has remained a market lacking in secondary market transparency. New issue rules are set by IPMA. Regulation remains light.

Yet as a formula for raising long-term finance the Eurobond system has proved attractive. The $22bn raised in the first half of this year is clear evidence of this. The attention of the OFT, the EC or the French government [illegible] not [illegible]comed.

Simon London

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. [illegible]	[illegible]pon %	Price	Book runner	[illegible] yield %
[illegible]							
[illegible] Railway(c)#†	300	1995	4	4¼	100	[illegible] Int.	4.250
[illegible] Elec.Wire(a)#†	120	1995	4	4¼	100	Daiwa [illegible]	[illegible]
Tokyu [illegible]	120	1995	[illegible]	4¼	[illegible]	[illegible]	4.250
Tsutsunaka [illegible] Ind.(b)#†	100	1995	4	4¼	[illegible]	[illegible] Europe	[illegible]
Senshukai Co.(b)#†	100	1995	4	4¼	100	Daiwa Europe	[illegible]
Tung [illegible] Ent.(e)§†	[illegible]	[illegible]	10	[illegible]	[illegible]	Jardine Fleming	[illegible]
Exp.Devt.Corp of Canada(l)†	200	1994	3	7¾	[illegible]	[illegible]	[illegible]
[illegible] Beiren♦	100	1995	[illegible]	[illegible]½	100	[illegible] Int.	[illegible]
SMC Corp♦	100	1995	4	[illegible]½	[illegible]	[illegible]	[illegible]
[illegible] B.S.(j)#†	100	[illegible]	7	(j)	100	BTI	-
HIH [illegible]	60	[illegible]	[illegible]	(7¼-7½)	100	J. Henry [illegible]	-
[illegible] Local de [illegible]	200	1995	4	8¼	[illegible]	[illegible] Europe	[illegible]
Toa [illegible]	[illegible]	1995	[illegible]	[illegible]½	[illegible]	Nikko [illegible]	[illegible]
Shiroki Corp♦	90	1995	[illegible]	4⅞	[illegible]	[illegible] Europe	[illegible]
[illegible] Int.(o)§	80	[illegible]	[illegible]	(9¾-10)	100	Merrill Lynch	-
Osaka [illegible] Co.(r)#†	100	1995	[illegible]	4½	100	Nomura Int.	4.500
Toyota Motor [illegible] Corp†	200	1995	4	[illegible]	101.43	CSFB	7.820
Banobras(t)†	100	1998	[illegible]	10¼	[illegible]	[illegible]	[illegible]
[illegible]	130	1995	4	4½	100	[illegible]	[illegible]
[illegible] Corp.♦	100	[illegible]	4	4½	100	[illegible] Int.	[illegible]
[illegible] Holland†	15	1998	7	8.8	101⅞	Fuji Int. Fin.	[illegible]
STERLING							
Rolls-Royce†	[illegible]	[illegible]	7	11⅝	[illegible]	[illegible]	11.311
ECUs							
[illegible] Baden-Wuerttemberg†	150	1998	[illegible]	9¼	[illegible]	[illegible]	[illegible]
[illegible]	70	[illegible]	4	8½	100	[illegible]	[illegible]
[illegible] Corp♦	70	1995	[illegible]	8½	100	Nikko [illegible]	[illegible]
CANADIAN DOLLARS							
BP America†	200	2001	10	10⅞	101	J.P. Morgan Secs.	10.707
Procter & Gamble†	200	2001	10	10⅝	101.30	Goldman Sachs	10.657
British [illegible] Int.Fin.†	200	1994	3	10	[illegible]	[illegible]	9.535
AUSTRALIAN [illegible]							
[illegible] Bk.NSW†	100	2001	10	11¾	[illegible]	[illegible]	[illegible]
FRENCH [illegible]							
Societe [illegible]	[illegible]	[illegible]	1	9½	99.98	[illegible]	[illegible]
Credit Lyonnais†	3bn	1992	[illegible]	9½	[illegible]	Credit Lyonnais	9.544
D-MARKS							
[illegible] en [illegible]	[illegible]	[illegible]	[illegible]	9	101¼	Deutsche [illegible]	8.861
Mr Max Corp#†	100	1995	4	5	[illegible]	Nomura Europe GmbH	5.000
Chubu Steel Plate(b)#†	100	1995	4	5	[illegible]	Nikko Bk [illegible]mbH	5.000

[illegible]	Amount m.	Maturity	Av. [illegible]	Coupon %	Price	Book runner	[illegible] yield %
[illegible]							
Nissan Construction(a)★★§†	100	[illegible]	-	[illegible]	100	Nomura [illegible]	[illegible]
[illegible] Aust.Property†	100	1996	-	[illegible]	101½	[illegible] & [illegible]	6.390
[illegible]★★§†	150	1995	-	[illegible]	[illegible]	SBC	[illegible]
[illegible]	30	[illegible]	-	5½	100	Nikko [illegible] (Switz)	[illegible]
Longchamp Co.(a)★★#†	[illegible]	1995	-	3⅛	100	[illegible] & Co.AG	[illegible]
[illegible]	[illegible]	[illegible]	-	3⅝	[illegible]	Banque [illegible]	[illegible]
Konami(m)★★♦	80	1995	-	3⅞	100	[illegible] Bk [illegible]	[illegible]
[illegible] Co.(n)★★§†	50	1995	-	4	[illegible]	[illegible] & Privatbk.	[illegible]
[illegible] Inc.(a)★★#†	50	1995	-	3½	100	Credit Suisse	[illegible]
[illegible]★★§†	40	1996	-	6⅛	100	[illegible] Japan [illegible]	[illegible]
W[illegible]	75	1999	-	7	101½	[illegible] Suisse	[illegible]
[illegible] El(p)★★♦	40	1995	-	3⅝	[illegible]	[illegible]	[illegible]
Takeo [illegible]	20	[illegible]	-	7¼	[illegible]	[illegible]	7.250
[illegible] Chain Co.(a)★★#†	35	1995	-	3½	100	Nomura Bk [illegible]	3.500
[illegible]	100	[illegible]	-	[illegible]	[illegible]	[illegible] Secs.(Switz)	[illegible]
Mandom Corp.(u)★★§	70	[illegible]	-	5½	100	[illegible]	[illegible]
Nissho Corp(a)★★#†	100	1995	-	[illegible]	100	[illegible]	3.531
[illegible]							
[illegible] Europe(o)†	10bn	1996	5	11.7	[illegible]	[illegible]	11.210
LIRE							
[illegible] Local [illegible] France(d)†	150bn	[illegible]	[illegible]	[illegible]	[illegible]	[illegible] Paulo	11.711
World Bank†	500bn	2001	10	10⅞	101⅞	[illegible]	[illegible]
YEN							
[illegible] Landerbank(v)†	[illegible]	1992	[illegible]	9	100⅞	Nippon [illegible] Int.	[illegible]
LUXEMBOURG FRANCS							
Kemira Int. Fin.★★†	500	1994	3	9⅛	101.95	BCEE	8.857
BBL International NV(f)†	1.5bn	1999	8	9¾	102	Credit European	9.394
Kredietbank Int. Fin.(h)†	500	1999	[illegible]	[illegible]	102	KBL	9.013
[illegible] Int. Fin.†	500	1996	[illegible]	[illegible]	101.85	KBL	8.901
BGL†	1bn	1999	8	9¼	101¼	BGL	[illegible]
[illegible] Corp†	700	1996	[illegible]	9⅝	[illegible]	[illegible] Int.	[illegible]
[illegible]	600	1996	4½	9⅝	[illegible]	Credit Int.	9.035

★★Private placement. §Convertible. #With equity warrants. ‡Floating rate note. ♦Variable rate notes. †Final terms. a) Conversion premium [illegible] at 2.5%. b) Exercise [illegible] fixed at 2.53%. Non-callable. c) Exercise premium [illegible] at 2.55%. Non-callable. d) [illegible] with existing L150bn deal on July 30. Non-callable. e) Put option 2/7/96 to yield 7¾%. Conversion premium fixed at 15%. f) Amount increased from Lfr1bn. Non-callable. g) Conversion premium fixed at at 2.82%. h) Callable in 1996 at 101[illegible]%, 1997 at 101% and 1998 at 100½%. i) Includes an issue of 200,000 [illegible] warrants which holders may subscribe to [illegible] of [illegible]% SDC bonds [illegible] 2003. j) Coupon pays 45bp over [illegible]. Put option once at par August [illegible] and August [illegible]. Non-callable. k) Callable [illegible] at par subject to [illegible] rule. Coupon payable semi-annually. l) [illegible] at 101% in [illegible] and [illegible]% in 1994. [illegible] n) [illegible] premium [illegible] at 2.52%. o) [illegible] Non-callable. [illegible] at 101½%. [illegible] Coupon payable semi-[illegible]. Non-callable. r) Exercise [illegible] at 2.54%. Non-callable. s) Put option 20/3/94 at 107⅞% to yield 8.811%. t) Full name of borrower – Banco Nacional de Obras y [illegible]. Non-callable. u) Coupon payable semi-annually. Non-callable. v) Nikkei-linked issue. Non-callable. Note: Yields are calculated on AIBD basis.

WORLD STOCK MARKETS

AUSTRIA

BELGIUM/LUXEMBOURG

DENMARK

FINLAND

FRANCE

FRANCE (continued)

GERMANY

GERMANY (continued)

ITALY

NETHERLANDS

NORWAY

SPAIN

SWEDEN

SWEDEN (continued)

SWITZERLAND

SOUTH AFRICA

JAPAN

AUSTRALIA

AUSTRALIA (continued)

HONG KONG

MALAYSIA

SINGAPORE

Price data supplied by Telekurs.

CANADA

TORONTO

4:00 pm prices July 19

Quotations in cents unless marked $

MONTREAL

pm prices July 19

INDICES

NEW YORK

DOW JONES

STANDARD AND POOR'S

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Exxl	[illegible]04,100	30	....
Amer T & T	[illegible]181,600	39⅞	+ ⅛
Citicorp	[illegible]858,500	15⅛	- ⅛
Boeing	[illegible]750,000	43⅛	- 1⅛
Blockbuster	2,698,000	10	- ⅛
RJR Nabisco	2,584,100	11⅛	+ ⅛
IBM	2,569,400	100⅛	+ 2⅛
Pan Am Corp	2,387,600	⅜	+ ⅛
Pepsico	2,254,100	29⅞	- ⅛
Telefonos	2,115,000	32	+ ⅛

TRADING ACTIVITY

† Volume	July 19	July 18	July 17
New York SE	187,290	199,470	194,150
Amex	11,769	15,178	12,468
NASDAQ	(u)	171,733	160,944
NYSE			
Issues Traded	2,078	2,074	2,082
Rises	749	1,024	827
Falls	800	530	744
Unchanged	529	520	511
New Highs	82	71	73
New Lows	12	13	14

CANADA

TORONTO	July 19	July 18	July 17	July 16	1991 HIGH	1991 LOW
Metals & Minerals	3276.94	3299.99	[illegible]	3268.08	3299.99 (18/7)	2832.06 (9/1)
Composite	3561.30	3561.19	[illegible]	3535.45	3582.07 (7/6)	3161.95 (15/1)
MONTREAL Portfolio	1900.76	1901.92	1887.57	1886.41	1903.86 (7/6)	1686.89 (9/1)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

AUSTRALIA · AUSTRIA · BELGIUM · CANADA · DENMARK · FINLAND · FRANCE · GERMANY · HONG KONG · IRELAND · ITALY · JAPAN · MALAYSIA · NETHERLANDS · NORWAY · SINGAPORE · SOUTH AFRICA · SOUTH KOREA · SPAIN · SWEDEN · SWITZERLAND · TAIWAN · THAILAND · WORLD

Bangkok SET (30/4/75)	677.33	682.54	684.45	[illegible]		
WORLD						
M.S. Capital Intl.(1/1/70) (5)	497.8P	497.5	494.8	[illegible]		

**Saturday July 13: Taiwan Weighted Price: 5412.[illegible]
‡ Subject to official recalculation.
Base values of all indices are 100 except: 863.20, HEX General, ISEQ [illegible] JSE 25 Industrials – 264.3 and Australia All Ordinary and Mining [illegible]

TOKYO - Most Active Stocks

Friday 19 July 1991

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Keisei Elec Rail ..	5.6m	1,180	-100	Kitano Const	3.3m	2,080	-170
Takuma	3.6m	1,150	-70	Mitsubishi Heavy	3.0m	698	+2
Stanley Electric ..	3.6m	968	+25	Sumitomo Metal .	2.8m	410	-3
Nippon Steel	3.5m	408	0	Victor	2.5m	1,840	0
Olympus Optical .	3.3m	1,340	+10	Clarion	2.4m	1,080	-80

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 45p per minute peak [illegible] 34p off peak, inc VAT. To obtain your free Unit Trust Code Booklet ring (071) 925-2128.

AUTHORISED UNIT TRUSTS

[illegible]

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administration costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♣) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point, a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH. Tel: 071 - 379 - 0444.

FT MANAGED FUNDS SERVICE

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Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Stewart Ivory Unit Tst Mgrs Ltd (1200)H						
45 Charlotte Sq, Edinburgh						031-226 3271
American	5	310.6	310.6	331.4	1.29	41410
Accum Units	5	[illegible]	363.4	387.7	1.29	41411
British	5	[illegible]	792.4	838.3	5.92	41416
Accum Units	5	[illegible]	1288.6	1342.1	5.92	41417
European	5	[illegible]	321.5	342.0	1.54	41418
Accum Units	5	[illegible]	344.6	367.0	1.54	41419
Japan	5	[illegible]	119.5	126.7	-	41420
Accum Units	5	120.2	130.2	127.7	-	41421
New Pacific	5	173.0	173.0	183.9	1.97	46365
Accum Units	5	177.1	177.1	188.3	1.97	46366
PEP July 19	5	120.0	121.9	129.0	0.61	47586
Mngd Equity	5	127.5	129.5	137.1	0.61	46556
Mngd Equity Acc	5	127.5	129.5	137.1	0.61	[illegible]
Mngd Cash	5	95.75	95.75	100.5	11.28	[illegible]
Accum Units	5	113.4	113.4	119.0	11.28	[illegible]

	Bid Price	Offer Price	Yield Gross	City-line
Edinburgh Fund Mngrs PLC				
Exempt Funds				
American July 17	162.2	166.7	1.50	40368
Managed July 17	146.2	150.6	3.82	40369
Japan July 18	118.8	122.1	0.08	40370
Sm Jap Cos July 19	579.7	595.6	0.08	40372
Fidelity Investment Services Ltd				
Mngd Pen P'folio	130.1	134.4	3.60	46885
Robert Fleming Asset Mngmt Ltd				

	Bid Price	Offer Price	Yield Gross	City-line
Albany Life Assurance Co Ltd – Contd.				
Intl Man Fd Acc	420.5	442.6	-	41697
Japan Fd	267.1	281.1	-	41699
UK Smlr Co's Fd Acc	92.5	97.3	-	41704
Europlus Metro	132.4	139.3	-	47025
Global Metro	103.8	109.2	-	46534
Sterling Metro	124.0	130.5	-	47026
UK Metro	116.1	122.1	-	46537
Nth American Fd Acc	235.2	247.5	-	41700
Pac Basin Fd Acc	154.2	162.2	-	41701
Prop Fd Acc	333.1	350.6	-	41702
Millennium	110.8	116.4	-	47027
MultiVale Inv Acc	774.1	815.4	-	41703
Pension Funds				
Brit. Blue Chip Acc	195.1	[illegible]		
Eq Pen Fd Acc	2354.6	[illegible]		
Euro Fd Acc	326.4	[illegible]		
Intl Fixed Int Acc	423.3	[illegible]		

	Bid Price	Offer Price	Yield Gross	City-line
Century Life Plc				
2 Eyre Street Hill, London EC1R 5AE				071-278 4488
City Of Edinburgh Life Assurance				
Life Funds				
Far East Emrg Econ	39.3	41.3	-	47033
Fund of Inv Tsts	59.6	62.6	-	47806
Money	151.9	159.9	-	41922
Special Situations	83.4	87.6	-	47808
UK Growth	125.6	131.9	-	47810
World Growth	115.9	121.7	-	47812
Pension Funds				
Fund of Inv Tsts	133.7	140.4	-	47807
Special Situations	123.4	129.6	-	47809
UK Growth	209.7	220.1	-	47811
World Growth	142.9	150.0	-	47813
UK Life Assurance				
Managed	104.3	109.8	-	44369
Property	124.9	131.5	-	44370

	Bid Price	Offer Price	Yield Gross	City-line
Crusader Insurance PLC				
PO Box 37, Greenock, Renfrewshire, PA15 4AZ				0475 888000
Life Funds				
Measured Performance	113.4	[illegible]	-	42145
Performance Plus	108.7	[illegible]	-	42146
With Profit Perform.	134.6	[illegible]	-	42147
UK Opportunity	135.4	[illegible]	-	42148
European Opportunity	133.3	[illegible]	-	42149
American Opp.	97.4	[illegible]	-	42150
Eastern Opp.	130.3	[illegible]	-	42151
Overseas	118.9	[illegible]	-	42152
Gwth Prp Ser 1 Mar 6	163.6	[illegible]	-	42153
Gwth Prp Ser 2	151.6	[illegible]	-	42154
Fixed Interest	128.6	[illegible]	-	42155
Cash	134.7	[illegible]	-	42156
Pension Funds				
Cash	133.8	140.8		

	Bid Price	Offer Price	Yield Gross	City-line
Assicurazioni GENERALI SpA				
117 Fenchurch St, London EC3M 5DY				071-488 0733
Hambro Generali Intl	143.5	151.1	-	42324
Hambro Generali Ppty	133.8	140.9	-	42325
Hambros Canadian	122.0	129.2	-	42326
Hambros Equity Inc	130.1	137.6	-	42327
Hambros European	145.9	153.6	-	42328
Hambros High Income	147.4	155.2	-	42329
Hambro Jap & Far East	142.5	150.0	-	42330
Hambros Nth American	171.3	180.4	-	42331
Hambros Scandinavian	168.4	177.3	-	42333
Hambros Smaller Cos	140.6	148.0	-	42334
Generali Intnl Managed	504.4	531.0	-	42335
Generali Int Mgd Pen	213.2	224.5	-	42336
Generali Cash	161.3	169.8	-	42337
Gresham Unit Assurance Ltd				
2-6 Prince of Wales Rd, Bournemouth				0202 752000

	Bid Price	Offer Price	Yield Gross	City-line
Legal & General (Unit Pensions) Ltd				
Kingswood House, Kingswood, Tadworth, Surrey				0737 370370
Ex. Bldy. Soc. Laid	[illegible]	163.9	-	42745
Do. Accum	[illegible]	206.1	-	42746
Exempt Cash Init	[illegible]	292.4	-	42747
Do. Accum	[illegible]	461.2	-	42748
Exempt Eqty. Init	[illegible]	898.0	-	42749
Do. Accum	1346.0	1416.9	-	42750
Exempt Euro Init	163.3	171.9	-	42751
Do. Accum	198.2	208.7	-	42752
Exempt Far East'n Init	218.0	229.5	-	42753
Do. Accum	264.6	278.6	-	42754
Exempt Fixed Init	416.4	438.4	-	42755
Do. Accum	657.1	691.7	-	42756
Ex. Index Lnk. Gilt	127.3	134.0	-	42757
Do. Accum	171.6	180.7	-	42758
Exempt Intl. Initial	206.4	217.3	-	42759
Do. Accum	292.2	307.6	-	42760

	Bid Price	Offer Price	Yield Gross	City-line
Merchant Investors Assurance Co Ltd				
Part of the MI Group				
91 Wimpole St, London W1M 7DA				
Life Administration 0272 264366				
Pensions Administration 081-686 9171				
Unit Prices 081 789 2945 or 0272 752297				
MI Managed Fd	55.9	58.8	-	47089
MI Currency Fd	219.4	230.9	-	42942
MI Environmental	46.9	49.3	-	47014
MI European Equity	54.3	57.1	-	44776
MI Far East Equity	307.0	323.1	-	42944
MI Gilt-Edged	400.6	421.6	-	42945
MI Income	52.1	54.8	-	47508
MI Index Linked Gilt	183.3	192.9	-	42948
MI Interest	317.5	334.2	-	42734
MI International	378.0	397.8	-	42949
MI Intl Equity	394.6	415.3	-	42950
MI Nth Amer Equity	152.1	160.1	-	42942
MI Property	489.9	515.6	-	42928
MI UK Fd	364.8	384.0	-	42936

[illegible]

INSURANCES

AA Friendly Society [illegible]

Abbey Life Assurance Co Ltd [illegible]

OTHER UK UNIT TRUSTS

Baillie Gifford & Co Ltd [illegible]

James Capel Fund Managers Ltd [illegible]

Cent. Bd. of Fin. of Church of England [illegible]

Charities Official Inv Fund [illegible]

Continued on next page

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OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)

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	Bid Price	Offer Price	Yield Gross	City-line
U.S. Treasury Securities Fund Ltd				
Short Term Shares	$767.60		–	49903
Fixed Income Shares	$891.33		–	49904
Yamaichi Capital Mangmt (Guernsey) Ltd				
Japan Meta Growth	$10.09		–	46000
Yamaichi ISS Fund	$7.49		–	46591
Yamaichi CB Plus Fund	$8.00		–	47335
Thai Inv Fund	$9.17		–	46493
Yamaichi OTC Equity (z)	$9.46		–	47326

IRELAND (SIB RECOGNISED)

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
GAM Fund Management Ltd (a)						
29 Kildare Street, Dublin				010 353 1760 630		
GAM Universal US Dlr Acc		$–	108.85xd			40337
GAM Universal US Dlr Inc		$–	106.55xd			40340
GAM Universal DM Acc		DM–	121.38xd			40341
GAM Universal DM Inc		DM–	118.75xd			40342
MI Global Asset Mngmt Co Ltd "MI Trusts"						
MI Global Dollar		$–	0.99	1.061		43441

IRELAND (REGULATED)(**)

	Bid Price	Offer Price	Yield Gross	City-line
Bank of Ireland [illegible] Managers Ltd				
Global Stag		9.60	–	43795
European Bond		[illegible]	–	45532
Specialist Portfolio				
EquityAmerica	$11.19	[illegible]	–	46343
EquityEurope	$8.61	[illegible]	–	46346
BondAmerica	$10.46	[illegible]	–	46357
BondEurope	$8.91	[illegible]	–	46349
BondJapan	$9.90	[illegible]	–	46360
World Inv Trust	$10.33	[illegible]	–	46368
Opportunity Europe	$10.14	[illegible]	–	46364
Equibond	$9.82	[illegible]	–	–
Bond Plus	$10.06	[illegible]	–	–

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
John Govett – Contd.						
Far East Equity	5¼	$10.68	10.68	10.78	1.0	47288
US Smaller Cos	5¼	$12.72	12.72	12.84	1.0	47289
European Equity	5¼	[illegible]	13.84	13.98	2.0	47290
UK High Income	5	£4.73	4.73xd	4.75	10.75	47291
UK Equity	5¼	£4.88	4.88	4.92	3.0	47292
Initial charge may alter for sales in other jurisdictions						
Hill Samuel Fund Mgrs (Jsy) Ltd (1000)F						
PO Box 63, Bond Street, St. Helier, Jersey				0534 76029		
Stg Fixed Int	5¼	£1.167	1.167	1.239	9.69	45259
Offshore High Yield	3½	£1.417	1.423xd	1.475	12.71	45249
Global Equity Fund	5¼	$14.40	14.49xd	15.50	0.66	45260
European Equity	5¼	[illegible]	18.53	19.82	0.99	45258
Uk Growth Gl Fund	5¼	£4.665	4.665	4.989	2.64	45264
Nth American Eqty	5¼	$10.25	10.25	10.93	0.50	45250
Far Eastern Eqty	5¼	$10.46	10.63	11.37	0.10	45252
International Mngd	5¼	£10.63	10.63xd	11.37	0.53	40066
Intnl. Bond Fund						
Sterling Managed	5	[illegible]	10.35xd	11.04	9.27	45265
US Dollar Managed	5	[illegible]	12.68xd	13.51	6.34	45266
International Currency						
Sterling Managed	5	[illegible]	26.61	28.16	–	45267
US Dollar Managed	5	[illegible]	29.67	31.40	–	45268
Sterling		[illegible]	25.34	25.34	10.56	45269
US Dollar		[illegible]	38.20	38.20	4.48	45270
Deutschmark		[illegible]	60.63	60.63	7.50	45271
Japanese Yen		[illegible]	4.883	4.883	5.56	45272
Swiss Franc		[illegible]	47.12	47.12	6.51	45273
Irish Punts		[illegible]	22.39	22.39	6.45	40652
INVESCO MIM International (Jersey) Ltd						
PO Box 271, St Helier, Jersey				0534 73114		
Jersey Gilt (z)	5¼	£0.1715	0.1715	0.1807	9.13	45451
Lloyds Bank (CI) U/T Mgrs.						
PO Box 195, St Helier, Jersey				0534 27561		
Lloyds Tst Gilt	2½	£9.321	9.336xd	9.580	11.04	45393
Dealing daily						
Midland Bank Fund Managers (Jersey) Ltd						
PO Box 26, St Helier, Jersey				0534 606000		
Intl Credit Portfolio	6	£1.0236	1.0236	1.0864	1.62	41027
Gilt	3	£0.9152	0.9152xd	0.9436	10.10	45446
For MIM see INVESCO MIM						
Royal Trust Jsy Fd Mngt Ltd (1400)F						
PO Box 428, St Helier, Jersey				0534 76077		
Govt Secs Fd	4	55.58	55.58	58.05	10.03	45734
TSB Trust Funds (CI)						
PO Box 538, St Helier, Jersey				0534 73494		
TSB Offshore Investment Fund Ltd						
Stg Deposit Class	3	101.83	101.83xd	104.99	11.00	45337

ISLE OF MAN

JERSEY (REGULATED)(**)

JERSEY (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

Anticipating events

THERE HAS been a tendency for the foreign exchanges to anticipate events this year, reacting well ahead of the influencing factors. When the dollar began its upward surge in February it was a reaction to expectations that the US economy was on the verge of recovering from recession.

UK clearing bank base lending rate 11 per cent from July 12, 1991

There was no strong evidence of a recovery, and it is only now that the economic figures are looking consistently encouraging. In the meantime the dollar gained some 40 pfennigs to a high of about DM1.8400, before it was hit hard by central bank intervention, but it could be that the market's infatuation with the US currency was about to cool anyway.

During the last week the dollar has fallen sharply against European currencies, and particularly the D-Mark.

At first this seemed to be the result of caution after the central banks' intervention, but now [illegible] appears [illegible] be a [illegible] looking ahead [illegible] likely interest [illegible] trends.

Mr Nicholas Brady, US Treasury secretary, said last [illegible] that there [illegible] a real chance of further [illegible] by the Federal Reserve and [illegible] this [illegible] welcomed by the administration.

On the other hand [illegible] Bundesbank's latest monthly report warns of inflationary [illegible] in [illegible] German economy. In June [illegible] inflation in Germany [illegible] cent was higher than the French rate of 3.3 per cent and the trend is still up, possibly to around 4.5 per cent.

Speculation that Germany will raise interest rates, possibly next month, as some other countries are looking to ease, has led to buying of the D-Mark in advance of the expected event, in much the same way that the dollar was bought earlier this year. If the German currency continues to strengthen this could even delay the move.

£ IN NEW YORK

July 19	Close	Previous Close
£ Spot	1.6940-1.6950	1.6650-1.6660
1 month	0.73-0.71pm	0.72-0.70pm
3 months	2.06-2.03pm	2.01-1.98pm
12 months	6.07-5.97pm	5.90-5.80pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	July 19	Previous
8.30 am	90.9	90.6
9.00 am	91.0	90.6
10.00 am	91.0	90.7
11.00 am	91.0	90.8
Noon	90.9	90.7
1.00 pm	90.9	90.7
2.00 pm	90.9	90.7
3.00 pm	91.0	90.7
4.00 pm	91.1	90.7

CURRENCY MOVEMENTS

Jul 19	Bank of England Index	Morgan Guaranty Changes %
Sterling	91.1	-20.6
U.S. Dollar	66.8	-11.4
Canadian Dollar	105.1	+2.5
Austrian Schilling	108.4	+11.0
Belgian Franc	110.0	-3.0
Danish Krone	107.3	+2.0
D-Mark	116.2	+22.9
Swiss Franc	109.4	+18.0
Dutch Guilder	112.7	+14.8
French Franc	101.6	-14.0
Lira	98.1	-20.2
Yen	138.5	+70.9

[illegible] Guaranty changes: average [illegible]982=100. [illegible] England Index (Base Average 1985=100). Rates [illegible] for Jul 18

OTHER CURRENCIES

Jul 19	£	$
Argentina	16659.0 - 16696.0	9925.00 - 9935.00
Australia	2.1570 - 2.1580	1.2855 - 1.2895
Brazil	553.550 - 554.400	329.700 - 333.000
Finland	7.1000 - 7.1125	4.2300 - 4.2330
Greece	319.550 - 329.150	190.100 - [illegible]
Hong Kong	13.0255 - 13.0420	7.7580 - 7.7600
Iran	112.00*	70.00*
Korea(Sth)	1208.25 - 1227.70	728.40 - 734.20
Kuwait	0.48280 - 0.48310	0.29290 - [illegible]
Luxembourg	60.90 - 61.00	36.00 - [illegible]
Malaysia	4.6650 - 4.6730	2.7780 - [illegible]

CURRENCY RATES

Jul 19	Bank rate %	Special Drawing Rights	European Currency Unit
[illegible]	[illegible]	[illegible]	[illegible]

POUND SPOT - FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

[illegible]

EXCHANGE CROSS RATES

[illegible]

EURO-CURRENCY INTEREST RATES

[illegible]

FT LONDON INTERBANK FIXING

[illegible]

MONEY RATES

[illegible]

LONDON MONEY RATES

[illegible]

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

TOKYO		
One month Bills	7 [illegible]	[illegible]
Three month Bills	7 [illegible]	[illegible]
BRUSSELS		
One month	[illegible]	[illegible]
Three month	9 [illegible]	[illegible]
AMSTERDAM		
One month	8.92	-0.05
Three month	9.09	+0.06

MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

NOTES—[illegible] Contractual rate of interest payable, not taking account of the deduction of basic rate income tax. Net: Rate of interest payable after allowing for deduction of basic rate income tax. Gross CAR: Gross rate annualised to take [illegible] of compounding of interest paid other than once a year. 'Compounded Annual Rate'. Int Crd: Frequency [illegible] which interest is credited to the account.

FINANCIAL TIMES STOCK INDICES

	July 19	July 18	July 17	July 16	July 15	July 12	1991 High	1991 Low	Since Compilation High	Since Compilation Low
Government Secs.	84.94	85.00	84.90	84.86	84.80	84.78	85.88	82.17	127.4	49.18
Fixed Interest	94.52	94.52	93.77	93.77	93.83	93.79	94.84	90.59	105.4	50.53
Ordinary	1959.5	1969.0	1978.8	1971.4	1951.1	1925.7	2014.5	[illegible]	2014.5	49.4
Gold Mines	212.9	212.6	212.4	212.9	214.2	214.0	222.8	[illegible]	734.7	43.5
FT-Act All Share	1213.86	1214.62	1219.47	1217.40	1206.38	1193.62	1232.32	987.46	1238.57	[illegible]
FT-SE 100	[illegible]	2547.3	[illegible]	2556.8	2532.5	2497.4	2561.0	2054.8	2561.0	136.9
FT-SE Eurotrack 100	1111.23	1106.24	1104.80	1110.41	1111.59	1107.36	1165.54	[illegible]	1165.54	900.45
FT-SE Eurotrack 200	1164.67	1162.66	1162.25	1169.24	1160.07	1152.84	1192.11	938.62	1192.11	938.62

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

[illegible]

BRITISH FUNDS—Contd

Over Fifteen Years

Undated

Index-Linked

[illegible]

INT. BANK AND O'SEAS

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

Public Board and Ind.

[illegible]

FOREIGN BONDS & RAILS

[illegible]

Continued on next page

BASE LENDING RATES

[illegible]

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

[illegible]

LONDON SHARE SERVICE

AMERICANS

Market Cap. £m	Stock	Price £	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
13,328.6	Abbott Laboratories	31¼	-1.6	1.9	10.7	My Ag Nv	1503
158.5	Allegheny & W 1c	305p	4.1	5.8	–	–	–
1,013.0	Amdahl 5c	916p	-0.9	0.6	31.1	Nv Mr Ja Aq	–
3,798.8	Amer. Cyanamid $5	40⅝	-1.2	2.2	27.2	Mr Je Se De	–
6,606.6	Amer. Express 60c	14¼	-0.7	3.8	1.7	Fb My Ag Nv	1594
25,929.9	American T. & T. $1	23½	-2.6	3.3	27.3	Fb My Ag Nv	1597
15,598.2	Ameritech $1	35½	-3.1	5.7	28.3	Fb My Ag Nv	–
4,661.2	BankAmerica $1	21¾	-0.7	3.3	16.5	Fe My Sp De	1744
2,548.5	Bankers N.Y. $1	31	-0.2	9.2	27.9	Ap Jy Oc Jan	1745
11,187.6	Bell Atlantic $1	28¼	-1.3	5.3	4.7	Fe My Au No	–
13,494.5	BellSouth Corp	28	-4.7	5.8	5.4	Fe My Au No	–
759.6	Bethlehem Steel $8	10	-8.0	2.4	6.2	Mar Jun S D	1821
593.1	Bowater Inc.	1654p	4.2	4.3	6.6	Oc Ja Ap Jy	1884
794.4	Brunswick 75c	9	2.9	2.9	7.5	F My Au N	1989
3,679.7	CPC Intnl. 25c	51¼	-1.0	2.3	26.6	Jan Ap Jly Oct	2263
136.9	California Engy	752p	-3.3	–	–	–	–
5,858.1	Campbell Soup 15c	46¼	-4.3	1.5	4.1	Oc Ja Ap Jy	2090
1,542.6	Chase Manhattan $12½	11	10.4	5.9	26.4	Fb My Ag Nv	2109
1,882.7	Chrysler $6¼	8	-8.8	4.2	19.6	Apr Jul S D	2135
3,870.7	Citicorp $1	9¼	9.8	6.5	23.10	My Au N F	2141
3,899.8	Colgate-Palmolive $1	23	9.6	2.7	17.5	F My Au N	2184
798.3	Cont'l Bank Corp $4	79	4.6	7.5	31.5	Dc Mr Jn Sp	–
797.2	Dana Corp. $1	19	-3.4	4.9	28.5	Mr Jn Se De	2306
296.1	Data General	1075p	2.4	–	–	–	–
840.9	Dial Crop. $1.5	21½	-2.8	3.9	28.5	Ja Ap Jy Oc	2778
4,959.5	Dun & Bradstreet $1	27¾	-3.9	4.6	13.2	Mr Jn Sp Dc	–
1,277.6	Eaton Corpn. 50c	37½	-2.3	–	2.2	–	2410
446.5	Echlin Inc.	8	-3.8	5.2	1.7	Jan Apr Jly Oct	3046
2,958.4	FPL Group 1c	18¼	-2.0	7.8	28.5	Mar Jun Sep Dec	–
2,247.7	Fluor Corp 62½pc	27¾	-6.7	0.7	21.6	Ja Ap Jy Oc	2609
9,627.0	Ford Motor $1	28⅝	-5.4	2.9	29.4	Mr Jn S D	2615
37,980.0	Gen. Elect. 63c	43⅝	-6.7	2.8	3.6	Ja Ap Jy Oc	2675
–	General Host Corp $1	494p	-3.4	4.2	13.12	–	–

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES – Contd

For Schol see INDUSTRIALS (Miscel)

ELECTRICALS

ELECTRICITY

For ... Hydro-Electric and Scottish Power see EQUITIES under LONDON RECENT ISSUES

ENGINEERING

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INDUSTRIALS (Miscel.) – Contd.

INSURANCES

LONDON SHARE SERVICE

● Latest Share Prices are available on FT Cityline. To obtain your free Share Code Booklet ring the FT Cityline help desk on 071-925-2128

LEISURE

PROPERTY

TRANSPORT—Contd

INVESTMENT TRUSTS—Contd

WATER

MINES—Contd

INVESTMENT TRUSTS

OIL AND GAS

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRANSPORT

Net asset values supplied by County NatWest Wood Mackenzie

FINANCE, LAND, ETC

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

Miscellaneous

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha refers to shares traded through SEAQ by at least two marketmakers and with a normal market size of 2,000 or more, based on experience of how many of its shares are traded in the typical deal. β Beta refers to all other shares. γ Gamma refers to other traded instruments.

Unless otherwise indicated, prices are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm –) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ● "Tap Stock"
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ✦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- ¶ Price at time of suspension
- § Not comparable
- † Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date.
- L No par value

B.Fr. Belgian Francs. Fr. French Francs. §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. c Cents. e Redemption yield. f Flat yield. k Kenya. C Canadian. E Minimum tender price.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Craig & Rose £1	640	......	Holton Hldgs.	32	-25.6
Finlay Pkg. 5p	25	-16.7			
Holt (Jos) 25p	1970	0.2			

IRISH

Cp. 8½% Ln. 2000	£92½	-0.5	IRG	128½	......
9pc Cap Ln. 1996	£97½	-0.3	United Drug	172	1.2
Fin. 13% 97/02	£114½	......			
Arnotts	165	......			

TRADITIONAL OPTIONS

3-month call rates

Industrials

Property

Oils

Mines

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1,150 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service:

Additions: City Merchants High Yield (Section: Trusts)
Process Systems (Electricals)
Ramar Textiles (Industrials)
Deletions: AFP Group (Finance,Land)
Brompton Hldgs. (Industrials)
Navan Resources (Mines)
Precious Metals (Mines)
Schlumberger (Industrials)
Stockbridge Ltd. (Mines)
USX (Americans)
Uslife Corp. (Insurances)

4:00 pm prices July 19

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1991 High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
15⅞	9¼	AAR Corp	0.48	0.03	16	450	15⅞	15⅛	15¼	-⅜
18⅞	14½	A L Labs A	0.16	0.01	19	588	18⅛	17¾	17¾	-⅛
55½	40⅞	AMP Inc	1.44	0.03	21	2376	55	54⅝	55	+⅜
68⅝	44¼	AMR			11	3257	62½	61½	61⅝	-⅝
2⅞	1¼	ARX			1	18	1½	1½	1½	
68	41½	ASA	3.50	0.07	15	303	53⅛	52½	52⅝	-½
54	38¼	Abbott Lab x	1.00	0.02	21	5552	52¼	51½	51½	-⅝
14½	9⅞	Abitibi Pr x	0.50	0.04	26	35	13¼	13¼	13¼	
11⅝	10⅜	ACM Gvt In x	1.26	0.11		392	11⅛	11⅛	11⅛	+⅛
9⅜	8⅞	ACM GvOpp x	1.01	0.11		53	9⅛	9⅛	9¼	
9¼	8¼	ACM Gvt Sp	1.01	0.11		287	9⅛	9	9	
11	9⅞	ACM Gvt Se	1.26	0.12		313	10⅞	10⅝	10⅞	
8⅞	7⅞	ACM Man x	1.01	0.12		263	u8⅞	8¼	8¼	-⅛
12⅞	11½	ACM Managd x	1.35	0.11		241	12⅛	12	12⅛	
7½	4¾	Acme Cleve	0.40	0.06	15	24	6⅝	6½	6½	-⅛
6	3½	Acme Elect			38	4	4	4	3⅞	
40	22¼	Acuson			25	519	34½	33⅝	34¼	+⅞
18½	14¼	Adams Expr	0.48	0.03	0	64	u18½	18⅛	18⅜	
20⅛	17⅞	Adobe12Pl x	2.40	0.13		123	18⅛	d17¾	18	
9⅛	6⅞	Adobe Res			22	55	7⅝	7½	7½	
38⅝	18	Ad Micro				147	34½	34	34⅜	
14¼	4⅝	Ad Micro P	3.00	0.27		187626	11⅞	11⅛	11⅛	-⅛
5⅛	2¼	Advest Grp	0.16	0.04	5	71	4⅜	4¼	4⅜	
49¼	33⅞	Aetna Lf	2.76	0.07		62447	42⅛	41¾	41¾	-⅛
10⅜	6⅞	Affil A	0.24	0.03	35	188	8⅞	8⅝	8⅞	
20⅛	12	Ahmanson	0.88	0.05	10	1361	18	17⅞	17⅞	-⅛
12⅞	2⅞	Allaon Inc			15	370	11⅞	11	11⅞	-⅜
74⅛	51⅞	Air Pr Chm	1.44	0.02	15	604	67½	66¼	66¼	-1
26⅝	16⅝	Airbne Frt	0.30	0.01	16	214	26⅜	26	26⅛	+⅛
16⅞	12½	Airgas Inc			73	193	15½	14⅞	15⅜	+½

Continued on next page

NYSE COMPOSITE PRICES

Continued from previous page

- X - Y - Z -

High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Chng
60¼	35¼	Xerox	3.00	0.05		101954	57½	57	57¼	+⅛
51	43¼	Xerox4.125				3	50	50	51	
21¼	14⅛	Xtra 1.94				21	20⅝	20½	20⅝	+½
24⅞	14¼	Xtra Corp	0.72	0.03	237	30	23⅛	23¼	23¼	
24¼	21¼	Yankee Egy	1.60	0.07	12	61	22⅛	22⅛	22¼	+⅛
1½	⅝	Zapata			0	298	⅞	⅝	⅞	+⅛
9⅝	6⅝	ZenithElec			2	385	8¼	6⅞	8¼	
18½	12	Zenith Nat	1.00	0.05	75	29	18¼	18	18⅛	−⅛
8¼	4½	Zemex Inc x	0.84	0.14		7	6⅛	6	6	
15½	10⅞	Zero Corp	0.40	0.03	16	148	14⅞	14½	14⅝	+⅛
41⅛	29½	Zurn Ind	0.88	0.02	15	153	38⅛	37⅛	38	+⅜
13½	10¼	Zweig Fund x	1.12	0.09		171	12⅝	12½	12½	
10	8½	Zweig Tot x	0.96	0.10		829	u10	9⅞	10	

Price data supplied by Telekurs.

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4:00 pm prices July 19

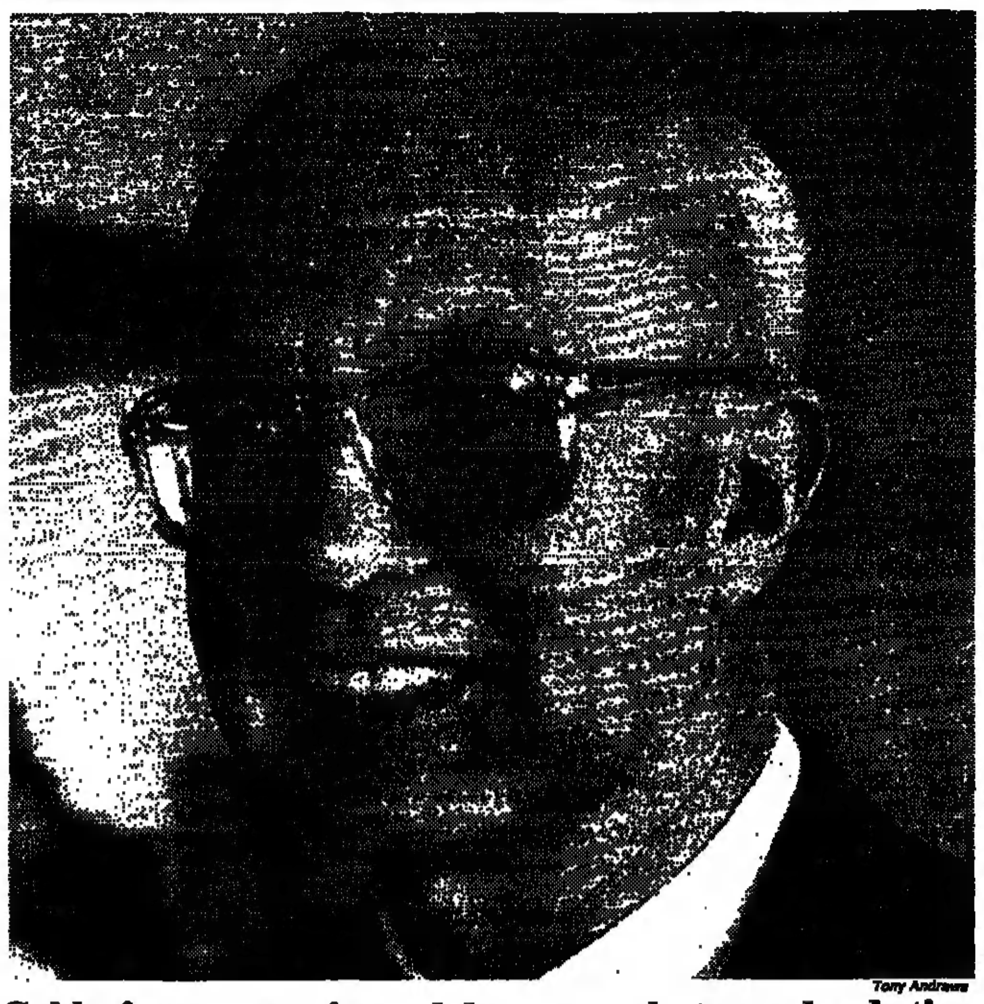
NASDAQ NATIONAL MARKET

4:00 pm prices July 19

MONDAY PROFILE

Monetarist hard man in waiting

David Marsh on Helmut Schlesinger, president-elect of the Bundesbank



Tony Andrews

Schlesinger: stamina, obduracy and strong bank ties

Mr Helmut Schlesinger, who becomes president of the German Bundesbank next month, slogs his way every day up 12 *flights of stairs to his office in* the central bank's Frankfurt headquarters.

From the Bundesbank's wide vista windows surveying a motley collection of football pitches and banking skyscrapers, Mr Schlesinger likes to observe the nesting habits of the local birdlife. It may be only a coincidence: but he has noticed that, lately, hawks are roosting in the Bundesbank's 1960s concrete walls.

Mr Schlesinger is an active but ascetic 66-year-old who is taking over – at an age when most men have reached retirement – one of the most powerful and daunting jobs in international economic policy-making. He is stepping into the limelight vacated by Mr Karl Otto Pöhl, holder of the top Bundesbank job since 1980, who in May decided to step down for a mixture of reasons, including unease over the government's economic policies towards east Germany.

Mr Schlesinger's most abiding characteristics are his stamina, his obduracy and his extraordinarily strong bonds to the German central banking habitat which has been his home since 1952. As reunited Germany tussles with economic turbulence of a kind unseen in two post-war generations, all three traits will be put severely to the test.

The Bundesbank's vice president since 1980, and equipped since 1986 with an honorary professorship, Mr Schlesinger personifies in almost caricatural form the Bundesbank's fabled commitment to financial stability. He has been 19 years on the Bundesbank's policy-making central council, and for eight years before that was the bank's chief economist.

In private conversation he is an acute listener and can demonstrate amiability and Bavarian charm. His public image is that of an austere monetarist devotee – a combination of Doctor Strangelove and Doktor Allwissend, the all-knowing Grimm fairy-tale figure.

His espousal of tight money policies places him in the unique position of having been blamed, slightly absurdly, by the Reagan administration for precipitating the stock market crash of 1987, and by the opposition Social Democrats in Bonn for helping bring down the government of Chancellor Helmut Schmidt in 1982.

Mr Hans Matthöfer, the former SPD finance minister, recalls stimulating exchanges with Mr Schlesinger about bringing down the budget deficit, but calls him the Bundesbank's "real hard man".

Mr Schmidt says: "He has very good manners, but it is very difficult to move him." Clearly rankling with the former chancellor is not only Mr Schlesinger's controversial interest rate role in the early 1980s, but also his pronounced scepticism on Mr Schmidt's goal of European Monetary Union (Emu). "He is a first-class economist, but also a German nationalist," says Mr Schmidt. "He will be more stubborn than Pöhl in standing up to the government."

Mr Karl Schiller, the former SPD economics minister who formally appointed Mr Schlesinger to the central bank council in 1972 agrees that Mr Schlesinger will be still tougher than Mr Pöhl on Emu. Giving what is gradually becoming a consensus German view spreading across party lines, Mr Schiller says of Mr Schlesinger's coolness towards Emu: "I think that is good, one shouldn't go too quickly."

After the long years working his way up the Bundesbank apparatus, Mr Schlesinger never expected to take the top post. He had been due to retire on reaching the age of 68 in September 1992. Mr Pöhl informed him that he was stepping down early – four and a half years before the expiry of his term – on May 6, just one day before he told President Richard von Weizsäcker and Mr Theo Waigel, the finance minister, and 10 days before he officially informed the whole Bundesbank council and the outside world.

Mr Schlesinger's tenure has now been extended for one more year to give him two years in the top position, the statutory minimum for the presidency. It is both a benefit and a disadvantage that Mr Schlesinger arrives with his mind made up on key issues. "He doesn't have to polish his image. He doesn't have to do anything to fit into a fashion," says one Bundesbanker who knows him well.

On the other hand, the challenges ahead, ranging from the financing of unification to the Emu negotiations and the still-unresolved dispute over slimming down the Bundesbank's council, will almost certainly make the tenure unsatisfactorily short.

Like Mr Pöhl when he took over the presidency in 1980, Mr Schlesinger arrives with inflation on the rise, the budget in disarray and the current account in deficit. Overall compared with 1980, the problems are much greater, and Mr Schlesinger will have considerably less time to try to sort them out.

In their personalities, the two men are near-opposites. During their 11½ years in tandem, Mr Pöhl and Mr Schlesinger surmounted initial differences and built up a good working relationship. But it was founded on mutual understanding of each other's shortcomings, as well as on respect. Mr Schlesinger showed impressive loyalty to a man five years his junior, and never issued any direct challenge to Mr Pöhl's authority. But he showed every sign of enjoying the Number One spot whenever Mr Pöhl was off on a foreign trip or on holiday.

Mr Pöhl possesses a beguilingly un-Germanic easy-going air – which can mask a good deal of inner turmoil – and affects sometimes exaggerated disdain for the formality of a central banker's life. Mr Schlesinger, however, is probably the more rounded personality, partly a result of his less disturbed family background. One of Mr Schlesinger's daughters and her husband still keep going the family glass and porcelain business in his home town of Penzberg in southern Bavaria.

Mr Pöhl's hedonism (he is reputed to know the difference between 200 sorts of grappa) is as well-known as Mr Schlesinger's love of mountaineering.

Within the Bundesbank, his attention to detail is famous. An exacting task-master who has rallied against the transition to word-processors and often writes out long drafts by hand, he frequently puts in a 12-hour day. If subordinates fail to reach his high standards, he can show impatience or even anger.

One long-standing colleague says that Mr Schlesinger has the ability to do every job in the economic department. Emphasising how this helps rather than impedes Mr Schlesinger's capacity to see the big picture, the Bundesbanker adds: "He can see both the wood and the trees."

Another Bundesbank insider puts it less charitably: "Schlesinger checks everything. Pöhl will criticise you if things go wrong but he gives his colleagues free rein."

Finding the right relationship with a particular set of colleagues – the other 17 members of the Bundesbank council – will be Mr Schlesinger's most delicate task. The others, composed of fellow members of the Frankfurt-based directorate and the presidents of the *Land* (state) central banks – make interest-rate decisions by majority vote.

Mr Schlesinger has just one vote, like everyone else. The diplomatic Mr Pöhl proved mainly adept at steering the disparate and sometimes highly egocentric council. The general view of Mr Schlesinger is that he will be more heavy-handed. One *Land* central bank president, although an admirer of Mr Schlesinger's abilities, says: "We will no longer have a president who smooths out disagreements."

According to one associate, Mr Schlesinger fully realises that, in his new job, he will have to be more conciliatory in public than during his years as vice-president. Already there is evidence that, in a new division of roles, he will delegate the hardest-line statements (for instance on Emu) to his new deputy, Mr Hans Tietmeyer.

Ultimately, however, Mr Schlesinger knows that, if he is to protect the reputation of the Bundesbank and the D-Mark – as well as his own – during the next two years, he will have little room for compromise. Germany is one of the few countries where unpopular monetary decisions can preserve a central bank president's place in history. Already, there are signs of mounting pressures for an increase in the Bundesbank's 6.5 per cent discount rate. At the last council meeting on July 11, on the express recommendation of Mr Pöhl, the Bundesbank decided to keep interest rates unchanged. It would not be a complete surprise if, at the next council meeting on August 15, the Schlesinger era were to start with a tightening of interest rates.

PERSONAL FILE

1924 Born in Penzberg.
1949 Joined IFO economics research institute in Munich.
1952 Joined Bank Deutscher *Länd*, the forerunner of the Bundesbank.
1964 Head of Bundesbank's economics and statistics department.
1972 Becomes member of Bundesbank directorate.
1980 Appointed Bundesbank vice-president.
1990 Becomes Bundesbank president.

Getting serious about inflation

MICHAEL PROWSE on America

Might Mr Alan Greenspan be the first Federal Reserve chairman to restore price stability since the 1950s? The idea may appear preposterous. Inflation psychology is still deeply entrenched in the US. With the freakish exception of 1986, when oil prices halved, consumer prices have risen by more than 3 per cent every year since 1967. In 25 years, the *dollar has lost more than three* quarters of its internal purchasing power. Most forecasters expect inflation to remain entrenched at 4-5 per cent a year.

The pessimists have good grounds for expecting little progress. They point out that inflation spikes of 10 per cent or more in the 1970s and early 1980s unsettled the nation, giving the Fed an implicit mandate for draconian monetary policies. In 1981 Mr Paul Volcker, then Fed chairman, tightened policy so aggressively that prime lending rates soared to 21.5 per cent. But inflation of 4-5 per cent, runs the argument, while quite unacceptable in Frankfurt, simply does not excite strong feelings in America. There is no support for the kind of painful monetary squeeze needed to get inflation permanently lower.

Sceptics will add that the Bush administration shows absolutely no interest in further reductions in inflation. Indeed, almost every time Mr Nicholas Brady, the Treasury secretary, opens his mouth it is to call for lower interest rates. In Japan and Europe, most conservative politicians reacted to the inflationary 1970s by becoming stern advocates of price stability. Finance ministers may not always have adopted the right policies but their rhetoric, at least, has been consistently anti-inflationary. The US political climate is quite different: most Republicans still believe there is a trade-off between inflation and growth, even in the medium term, and most plump for more growth.

Mr Greenspan, being a shrewd public servant, has not banged the table and/demanded that inflation reduction become a higher priority. He has, instead, worked quietly towards this end. His first term as Fed chairman has seen a striking reduction in monetary growth: M2, the preferred measure of broad money, has grown at about 4.5 per cent a year, roughly half the rate of expansion under Mr Volcker. Whether the squeeze would have tipped the economy into recession without the shock to confidence following Iraq's invasion of Kuwait is uncertain, but Mr Greenspan was certainly willing to risk much lower growth. After the recession began, the Fed's interest rate cuts did no more than restore monetary growth of about 4 per cent.

Inflation did not respond quickly. Indeed, the energy price spike last year caused a temporary surge in inflation from about 4.5 per cent to just over 6 per cent. Then a bunching of price increases, including higher excise taxes and postal rates, kept the headline rate artificially high at the beginning of this year. But, as Mr Greenspan noted in last week's Humphrey-Hawkins testimony, the inflation outlook is now improving rapidly. Consumer prices rose at an annual rate of only 2.7 per cent in the first half of this year.

The Fed is now forecasting inflation of only about 3.5 per cent both this year and next. This apparent stability masks steady progress towards lower inflation because the retreat of oil prices will exaggerate the decline in inflation this year.

The brightening inflation outlook should not come as a surprise – even to those who dismiss the lagged effects of slower monetary growth. The dollar has risen sharply and looks set to appreciate further, especially against European currencies. Total labour costs are rising at just over 4 per cent a year, a full percentage point lower than before the recession began last July. Productivity gains as the economic recovery matures should sharply curb industrial cost inflation over the next 18 months.

Inflation of 3.5 per cent should be achieved without too much trouble. The big question is whether Mr Greenspan can make further progress. The Fed's decision not to reduce its 2.5-6.5 per cent target range for M2 next year will be regarded by some as a sign that it lacks resolve. But it remains fully consistent with further downward pressure on inflation. Given sustainable real growth of perhaps 2.5 per cent, the mid-point of the range implies inflation of only 2 per cent. The Humphrey-Hawkins statement, moreover, contained the following declaration of intent:

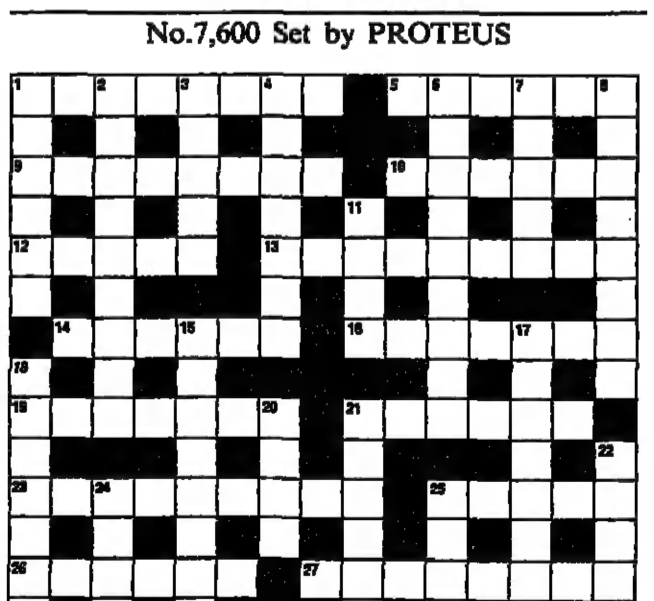
"By reducing and ultimately eliminating the distortion to resource allocation stemming from ongoing, generalised price increases, a monetary policy aimed at achieving price stability over time will enhance the economy's potential to grow and thereby raise living standards."

My guess is that Mr Greenspan will push much harder for a sustained reduction in inflation than most pundits suspect. *Having been renominated* by the White House for a second four-year term as Fed chairman, he is now less susceptible to political pressure. With the recession apparently over, he can fret less about stabilising the real economy. He thus has every incentive to *seek a place in the history* books by focusing on price stability. The Bush administration will continue to have shorter-term horizons – but don't assume that the Fed will yield every time it comes under pressure. We may be on the brink of the non-inflationary 1990s.

JOTTER PAD

CROSSWORD

No.7,600 Set by PROTEUS



ACROSS

1 Settler needing to stop its spread (6)
5 Yarn of the seashore (6)
9 Girl showing discretion (8)
10 Soldier in Spanish city or several in ancient Rome (6)
12 Tantalise by fumbling a set point (5)
13 Unwise to give child coarse book (9)
14 Where saint got out gift (6)
16 *Win seat back* without flowers (7)
19 Venetian moneylender chary with rugby player (7)
21 Has visions about water-containers (6)
23 Sketch at bottom of page of dog with disreputable woman (4-5)
25 *Flower* of mixed colour it is said (5)
26 Scamp being given some extra scales (6)
27 Drinks giving urge to take pleasure-flights (3-5)
28 Savage-sounding yarn (6)
29 They bear responsibility for deposit in river (8)

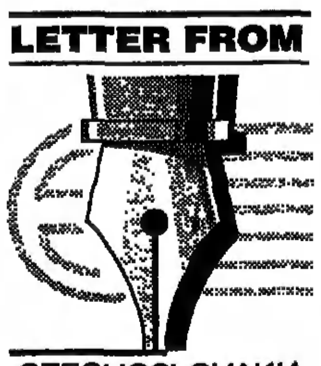
DOWN

1 Cloak for a writer (6)
2 Expressing praise for archbishop – a right winger (9)
3 Relative finding quarter in French town (5)
4 Plan for small body of troops (7)
6 Novel habitat for wild animals (3,6)
7 Quicksilver island to a Frenchman (5)
8 Old African Christian actor is leading tenor (8)
11 Pick out precise place (4)
15 Happened to capture town (4,5)
17 Stall when it's time to get up (9)
18 Secret imparted by oriental drunkard to literary schoolboy (6)
20 Eager to express sorrow (4)
21 Ship sometimes having cargo of sugar (7)
22 Delivers essential component of poetry perhaps (6)
24 Point in dispute with children (5)
25 Birds with frilly collars (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday August 3.

Velvet revolution is fraying

LETTER FROM



CZECHOSLOVAKIA

Eighteen months ago the Czechoslovak Communist party was swept from power in the first free elections since 1945. Now the party and its many secret sympathisers still in positions of power and influence are looking with new hope to the elections due next summer. Although President Vaclav Havel's lofty ideals are much admired, the love and peace which radiate from Prague castle, his official residence, do not seem to have permeated the politics and daily life of the country. *Almost 50 years of* totalitarian rule have exerted a more pervasive psychological effect than outside observers imagined: Czechs and Slovaks appear to have forgotten not only about the market economy, but about the art of democratic politics as well.

Civic Forum, which emerged as the only organised political force of the "Velvet Revolution" of 1989, is divided and a plethora of small, poorly-disciplined parties is making it difficult for the government to carry out its legislative programme.

President Havel and those around him seem mainly concerned with the arts and foreign policy, leaving economics to Mr Vaclav Klaus, the federal minister of finance and head of the Liberal Democrats who split away from Havel's Civic Forum. Klaus is eliminating Havel's men from government and the Civil Service, and has become the dominant figure whom few dare to criticise publicly.

Kinder observers see Mr Klaus as a well-intentioned *dogmatist who replaced the* idols of Marx and Lenin with free-marketeers such as Friedrich von Hayek and Milton Friedman. Others maintain that his policy is intended to sell out Czech industry to foreigners with the money and know-how to modernise and re-integrate Czechoslovakia into the world economy.

The main elements of Mr Klaus's policy – liberalisation of prices, internal convertibility of the Czech currency, a tight fiscal policy coupled with continued wage control, and privatisation of trade and industry – sound good to western economists.

Domestic observers are more critical. They argue that announcing price increases months ahead of their introduction on January 1 led to the disappearance of certain basic consumer goods, such as potatoes, from the market. As every greengrocer, but not the minister of finance, could foresee, consumers rushed to buy at the prevailing low price and producers withheld supplies while waiting for the higher price.

A much more serious mistake was to remove price controls without breaking up the food distribution and food processing cartels. These now make enormous profits by keeping procurement prices low and retail prices high. The state budget benefits (from higher taxes on their profits) but, as wage control keeps incomes low, consumer pur*chases have been drastically* reduced. The result is that agricultural co-operatives cannot sell their products – milk and beef in particular. Farmers are threatening to blockade roads to Prague.

Critics also attack the introduction of internal convertibil*ity for the Czech crown.* All foreign currency proceeds have to be offered to the State Bank while enterprises can deal with foreign suppliers of goods and services, and obtain foreign currency from the State Bank to settle accounts. The policy is admirable. The error was to *devalue the crown to the* prevailing black market level.

The outward result of this radical devaluation to about 50 crowns to the pound sterling is a flood of Austrian and German day trippers who can feast and drink at about a quarter of the price they would have to pay at home. The less-obvious effect is that the Germans are buying up houses and other property through local nominees at substantially less than a fair market price.

The undervaluation of the crown also has a negative effect on Czech industry by creating a barrier to imports and an export subsidy for its low-quality products. Not only western consumer products are barred but also machinery and equipment needed to increase industrial efficiency.

Privatisation of retail trade *and small businesses* is under way but interest rates of more than 20 per cent are having a paralysing effect on the large enterprises which, in preparation for privatisation, were transformed into independent state enterprises. The state transferred the fixed assets but provided no working capital. This, together with the loss of *Comecon markets, sharply* reduced output and made it impossible to adjust quickly to western markets.

The voucher method of privatisation, which enables each resident citizen over 18 to obtain 85,000 crowns worth of industrial shares by paying *1,000 crowns for* a voucher, is welcomed by present managements, but is viewed sceptically by independent observers. Most managers were appointed and promoted by the communist regime because of their obedience to party directives and are unlikely to adapt to a *market economy* easily. They welcome the voucher system, expecting that the small shareholders will be unable to exercise any effective control.

In these circumstances, only foreign investment could achieve an upgrading of management and the modernisation or conversion of production plants – which is indispensable if the economy is to switch to western markets.

But massive foreign investment can hardly be expected unless political stability is achieved and macroeconomic management becomes less dogmatic and less focused on next next year's elections.

A H Hermann

The author is D J Freeman senior research fellow in international trade law at Queen Mary and Westfield College, University of London.

APPOINTMENTS

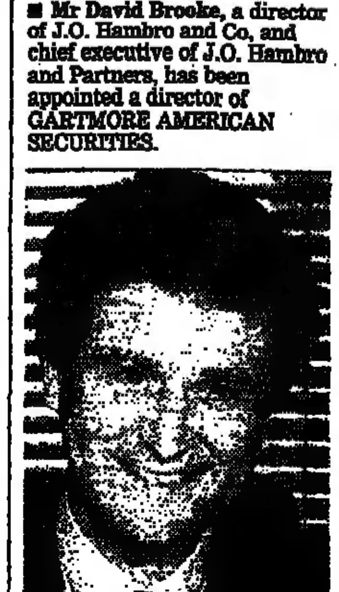
Sealink finance director

Mr Bob Holmes *(pictured)* has been appointed finance director, SEALINK STENA LINE, Ashford. He was business controller, travel service.

■ Mr Richard Bronk has been appointed a director of BARING INTERNATIONAL INVESTMENT.

■ Lord Joseph has been appointed a part-time non-executive director of METROLANDS DEVELOPMENTS, Darwen, Lancashire, from August 1.

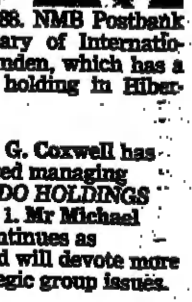
■ Mr David Brooke, a director of J.O. Hambro and Co, and chief executive of J.O. Hambro and Partners, has been appointed a director of GARTMORE AMERICAN SECURITIES.



HIGGS AND HILL CONSTRUCTION HOLDINGS has appointed Mr A.C. Akerman *(pictured)* as finance director. He was group finance director of Cegelec Controls.

■ At GUIDEHOUSE GROUP Mr Derek Bell, a main board director responsible for insurance activities, has been appointed chief executive. He succeeds *Mr John East*, who becomes executive deputy chairman.

■ NMB POSTBANK has appointed Mr C. Vincent Reilly *(pictured)* as senior general manager for the UK and Ireland. He will be based in *London*. Mr Reilly is general manager for the UK of Algemene Bank Nederland, and was chief executive of ABN Ireland 1976-88. NMB Postbank is a subsidiary of Internationale Nederlanden, which has a 50 per cent holding in Hibernian Life.



■ Mr Sidney G. Coxwell has been appointed managing *director of UDO HOLDINGS* from August 1. Mr Michael J. Wright continues as chairman and will devote more time to strategic group issues.

■ BUNZL has appointed Mr Paul Twigden as managing director of its worldwide plastics operations. *He will* return from New Jersey where he is president of Bunzl Plastics Inc, managing the North American and Brazilian operations.

MORI board post

■ Mrs Anna Treseder has been elected to the board of MARKET & OPINION RESEARCH INTERNATIONAL (MORI). She is managing director of Field & Tab, MORI's fieldwork subsidiary. Ms Christine Roberts becomes an associate director. She joins from Jeremy Coyle Associates.

■ Mr Chris Coffin has been appointed new business director with STRACHAN AND HENSHAW, a Weir Group company.

■ The new financial services director-designate of NAAFI (Navy, Army, Air Force Institutes) is Mr John Loaring. He was marketing director at Hill Samuel Investment Services.

■ Mr Terry Rochester is to be promoted on July 29 to chief highway engineer in the DEPARTMENT OF TRANSPORT, succeeding Mr Jack Parker who is retiring. Mr Rochester is director, West Midlands construction programme division.

■ Dr C.P.R. Ogbourne has been appointed director, information services, at C.A.B. INTERNATIONAL.